S. HRG. 99-958

PASSENGER SHIP LEGISLATION

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST AND SECOND SESSIONS

ON

S. 1929

ENTITLED THE "PASSENGER SHIP AUTHORIZATION ACT".

S. 1935

TO DIRECT THE SECRETARY OF THE DEPARTMENT IN WHICH THE COAST GUARD IS OPERATING TO CAUSE CERTAIN VESSELS TO BE DOCUMENTED AS VESSELS OF THE UNITED STATES SO AS TO BE ENTITLED TO ENGAGE IN THE DOMESTIC COASTWISE TRADE, AND FOR OTHER PURPOSES

JUNE 4, 1986

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PASSENGER SHIP LEGISLATION

WEDNESDAY, JUNE 4, 1986

U.S. Senate,
Committee on Commerce, Science, and Transportation,
Subcommittee on Merchant Marine,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:03 a.m., in room SR-253, Russell Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: Brad Gilman, professional staff member; and John Hardy, minority staff counsel.

OPENING STATEMENT BY SENATOR STEVENS

Senator Stevens. Good morning.

Today the subcommittee will consider two bills, S. 1935 and S. 1929, which were introduced for the purpose of promoting the domestic cruise ship industry.

This issue has been considered by the subcommittee before. It was controversial in the 98th Congress, and today's hearing I think will illustrate that there is still a great deal of controversy concerning these bills.

Let me make one thing clear before we begin. The dispute is over the method of revitalizing the domestic cruise ship industry and not over the underlying goal of the revitalization itself.

Our Nation is dependent upon the U.S. Merchant Marine, and I believe it is imperative to find some way to provide for a resurgence of this industry.

The legislation that I have introduced, S. 1935, would permit five foreign built cruise ships to enter the domestic trade.

If this hearing illustrates that criteria and procedures outlined in the legislation do not provide an equal opportunity for interested U.S. companies, we would be pleased to modify the legislation.

The hearing will also focus on S. 1929, which would require the hull and superstructure of cruise ships carrying passengers between U.S. ports to be built in the United States, but permit the "hotel" portions of the vessels to be constructed abroad.

We have a statement here from Senator Mathias, the sponsor of S. 1929, which I would like to submit for the record in support of his bill.

Senator Inouye, do you have an opening comment?

OPENING STATEMENT BY SENATOR INOUYE

Senator Inouye. Yes, I have. Thank you.

I wish to commend my chairman for his leaderhsip in trying to revitalize our maritime industry.

The perilous state of our merchant marine is due to many factors, including the neglect of several administrations. The ad hoc chipping away at the foundations of our national maritime policy over the past 6 years has, however, brought us to the precipice.

For several years, I have expressed my concern as existing programs and policies have been abandoned, without first making any indepth analysis or developing alternatives. We now see some of the sad consequences of not proceeding in a sound and orderly manner. Congress and the industry find themselves with the extremely difficult and very urgent tasks of trying to redesign the liner ODS program so that our international liner fleet will be competitive in our own trades; and establishing a build and charter program so that our commercial shipbuilding capability will not disappear entirely.

Necessity has forced us to work under the gun. Everyone here I believe knows the high risks involved in trying to fashion solutions under these circumstances.

In each of the last three Congresses, some have urged, albeit unsuccessfully, that we chip away at our cabotage laws and enact legislation to permit two foreign built Cunard vessels to be reflagged, with Jones Act privileges. The reason for justifying the erosion of those laws is that it is financially not feasible to build a passenger cruise vessel in a U.S. shipyard.

The cabotage laws, of course, reflect the most long-standing element in our national maritime policy.

I have opposed these efforts in the past and continue to do so because I believe we should first have an indepth study of our cabotage laws to determine if they are no longer serving the purposes which Congress intended. If they are not, then we should legislate accordingly.

Ad hoc, special exemptions can only make that law a dead letter, without Congress ever considering whether it has outlived its purpose.

I believe the announcement last Thursday by a major U.S. shipyard should go a long way toward putting to rest the contention that it is not financially feasible to build passenger cruise vessels in U.S. yards. The American Shipbuilding Co. has announced that it will construct, own, and operate, two passenger cruise vessels. The U.S. maritime industry, in my view, can now realistically expect more commercial shipyard work and more seagoing jobs. And this need only be the beginning.

I have been authoritatively informed, however, that the American Shipbuilding Co. will not go forward with its plans if the legislation before the committee today is enacted.

Finally, Mr. Chairman, I ask unanimous consent that a letter from C.E. DeFries, president of the Marine Engineers' Beneficial Association, transmitting a report of the Joint Maritime Congress, be made a part of the record.

That report found that of the 11 vessels identified as being eligible for reflagging under S. 1935, only the owner-operator of the 2 Cunard vessels has any plans to sell its ships or reflag them.

In other words, according to the information furnished by JMC, Cunard is the only foreign operator interested in taking advantage of S. 1935.

Thank you very much.

Senator **STEVENS**. I would be glad to make that part of the record.

[The statement and bills follow:]

STATEMENT OF HON. CHARLES McC. MATHIAS, JR., U.S. SENATOR FROM MARYLAND

I appreciate having the opportunity to submit testimony on S. 1929, the Passenger Ship Authorization Act. S. 1929 is identical to H.R. 3262, introduced in the other body by my colleague in the Maryland delegation, Representative Helen Delich Bentley.

This bill will allow the documentation of certain vessels as passenger vessels of the United States so that they can conduct coastal trade. It calls for the construction of the marine portions of new passenger ships in U.S. yards with the "hotel" portions being built overseas. Under present law, a ship constructed in this manner would not be able to trade between domestic ports.

S. 1929 is an attempt to address the major problem facing many domestic shipyards—the lack of commercial shipbuilding work. Yards must rely on government work to remain viable and that work is all too scarce.

While I would prefer that the entire construction job be done in U.S. shipyards, it is ancient wisdom that "half a loaf is better than none." On that principle, I support the proposal embodied in this bill, which could generate many needed jobs in the shipbuilding industry.

A good example of what is happening in the domestic shipbuilding industry can be seen in Maryland. One major yard has already closed, several repair facilities also have gone out of business, and the last remaining construction yard is barely hanging on. Passage of the Passenger Ship Authorization Act would help create several hundred jobs and help maintain our nation's shipbuilding capacity.

Again, thank you for allowing me to provide testimony on S. 1929.

99TH CONGRESS
1ST SESSION

S. 1929

Entitled the "Passenger Ship Authorization Act".

IN THE SENATE OF THE UNITED STATES

DECEMBER 12 (legislative day, DECEMBER 9), 1985

Mr. MATHIAS introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

---

A BILL

Entitled the "Passenger Ship Authorization Act".

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) notwithstanding any other provision of law, the Secretary of the department in which the Coast Guard is operating shall cause any passenger vessel, as defined in section 613(a) of the Merchant Marine Act, 1963 (46 U.S.C. 1183(a)), with respect to which (i) all major structural components of its hull and superstructure are fabricated and assempled in the United States, and (ii) its propulsion and auxiliary machinery systems are installed and tested in the United States, to be documented as a vessel of the United States entitled to engage in the coastwise trade, so long as—

stet

(1) such vessel is in compliance with all other requirements for vessels engaging in the coastwise trade;

(2) such vessel is owned by a citizen of the United States as defined in the applicable laws prescribing the qualifications for vessels to engage in the coastwise trade;

(3) for hire carriage in such trade is limited to passengers, and their accompanying baggage, personal property and motor vehicles; and

(4) the owner of such vessel is agreeable to contracting with the United States for inclusion of enhanced military features.

(b) The provisions of this section shall apply to any passenger vessel for which a building contract has been executed within two years after the date of enactment of this Act.

○

II

99th CONGRESS
1st Session

S. 1935

To direct the secretary of the department in which the Coast Guard is operating to cause certain vessels to be documented as vessels of the United States so as to be entitled to engage in the domestic coastwise trade, and for other purposes.

IN THE SENATE OF THE UNITED STATES

December 12 (legislative day, December 9), 1985

Mr. Stevens (for himself, Mr. Goldwater, Mr. Pressler, and Mr. Murkowski) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

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A BILL

To direct the secretary of the department in which the Coast Guard is operating to cause certain vessels to be documented as vessels of the United States so as to be entitled to engage in the domestic coastwise trade, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) notwithstanding section 12106 or 12107 of title 46, United States Code, section 27 of the Merchant Marine Act, 1920 (46 App. U.S.C. 883), or any other provision of law, the Secretary of the department in which the Coast Guard is operating shall cause, upon application made in accordance with this Act, not more than five vessels under foreign ownership, registry and flag on the date of enactment of this Act to be documented permanently as vessels of the United States with the privilege of engaging in the coastwise trade, if—

(1) each such vessel is in compliance with all other requirements of law applicable to vessels engaging in the coastwise trade;

(2) any alterations, repairs, or rebuilding of each such vessel that is necessary to bring the vessel into compliance with the requirements of part B of subtitle II of title 46, United States Code (relating to inspection and regulation of vessels) and regulations issued under that part, or any conversion to eliminate cargo space necessary to bring the vessel into compliance with paragraph (5) of this subsection, are done in the United States.

(3) all future nonemergency alterations, repairs, or rebuilding of each such vessel after it is documented under this subsection are effected in the United States pursuant to the then applicable laws, so long as the vessel remains documented as a United States vessel;

(4) on the date of such documentation, each such vessel is owned by a citizen or citizens of the United States, as defined in the applicable laws prescribing the

qualifications for vessels to engage in the coastwise trade;

(5) transportation in each such vessel is limited solely to passengers and their personal luggage; and

(6) each such vessel also—

(A) has a minimum of four hundred passenger cabins with modern facilities;

(B) is capable of being converted to a troopship; and

(C) has been originally delivered solely for passenger cruise service within twelve years before the date of enactment of this Act, except that any vessel constructed in a foreign shipyard and delivered solely for passenger cruise service within two years before the date of enactment of this Act shall be deemed constructed solely for the purpose of entering the coastwise trade pursuant to this Act, and such vessel shall not be eligible for documentation pursuant to this Act.

(b) For purposes of this Act, the Secretary of the department in which the Coast Guard is operating shall, with respect to vessels subject to this Act, determine the eligibility of each vessel to engage in the coastwise trade in chronological order of application, made after the date of enactment of this Act, to the Secretary for documentation as a United

States vessel under this Act. Any such application shall be filed not later than twelve months after the date of enactment of this Act. Any rebuilding of a vessel or repair work necessary to bring each such vessel into compliance with the requirements of part B of subtitle II of title 46, United States Code (relating to inspection and regulation of vessels) and the regulations issued under that part shall be completed within twenty-four months after the date of enactment of this Act.

○

Senator STEVENS. My only comment would be that we keep running into a stone wall and we still do not have any U.S.-flag cruise ships. I don't know where we will come out if we can't make an exception to the Jones Act and we can't find a way to amend the Jones Act. I guess we will just have to continue as a nation without any U.S.-flag cruise ship capacity.

Senator Heflin is here to introduce a gentleman from Alabama. Senator Heflin.

STATEMENT OF HON. HOWELL HEFLIN, U.S. SENATOR FROM ALABAMA

Senator HEFLIN. Mr. Chairman, I appreciate your allowing me to go out of order.

The person I will introduce will testify later. But I do have other things that I have to be on the floor to attend to and also have to go to another committee meeting. So I appreciate the courtesy extended to me by allowing me to go ahead now.

It is with a great deal of pleasure that I would like to introduce to the committee the chairman of the board of Alabama Dry Dock and Shipbuilding Co., who is Gen. James L. Murray. ADDSCO, as the company is named, has proven to be an asset to the State of Alabama as well as to this Nation. It is an old company. It was formed in 1917. The facility is located on Pinto Island, across the river from Mobile, approximately 30 miles from the Gulf of Mexico.

ADDSCO has grown from a company that repaired fruit steamers to expanded operations and that met the emergencies of two World Wars. It built a total of 129 vessels for the U.S. Government, and repaired and converted almost 3,000 vessels during the war years.

During World War II alone, the company built 20 limited-type ships and repaired 2,800 vessels for the Army and the Navy.

From the late 1940's until 1967, ADDSCO has almost exclusively been engaged in repair and conversion work. Later, the company expanded to make take-home construction jobs of such things as massive ocean-going barges to the structuring of oil rigs. This company has the physical capacity to outfit and repair ships well over 600 feet in length, as well as possessing separate facilities for fabrication and electrical machine shop work.

With an employment capacity of 3,500 production workers, ADDSCO plays a vital role in the condition of Mobile's economy.

Currently, however, the ship repair industry is in its worst shape since the depression of 1930. Yet, I am very confident of the very capable leadership of Gen. James L. Murray that ADDSCO will bounce back.

General Murray has a distinguished record for hard work and service to others.

After receiving an engineering degree, he worked with NASA, that is, with the agency that is now known as NASA. In 1940, he answered the call of his country and joined the U.S. Army Air Corps and attained the rank of major before his departure.

After 2 years in the private sector, General Murray took a regular commission with the Air Force, serving in Europe as chief of the Engineering Division at the U.S. Air Force headquarters, preparing specifications and determining technical adequacies of material procured offshore.

Leaving the regular Air Force, General Murray moved up through various positions in the aeronautics industry, eventually becoming chairman of Teledyne, CAE Corp.

Remaining in the Air Force Reserve, General Murray became a major general and was appointed the chairman of the Air Force Reserve Policy Committee for the Secretary of the Air Force.

He is now retired from the Air Force, but not before receiving the Distinguished Service Medal Award for outstanding leadership.

He serves on various honored committees, including the Board of Trustees of the Association for Unmanned Vehicle Systems, the National Aeronautics Association, and the American Security Council.

He is active in many civic organizations and served as chairman of the Toledo area chamber of commerce in 1983.

I am pleased that General Murray will be here and will testify later.

Thank you, Mr. Chairman.

Senator STEVENS. Thank you, Senator.

We are pleased to have you here.

Our first witness today is the Administrator of the Maritime Administration, John Gaughan. Appearing also on the first panel will be Assistant Secretary Everett Pyatt, Shipbuilding and Logistics, Department of the Navy.

Gentlemen, we are pleased to have your statements.

STATEMENTS OF HON. JOHN GAUGHAN, ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY REGINALD A. BOURDON, ASSISTANT ADMINISTRATOR FOR POLICY AND INTERNATIONAL AFFAIRS; ROBERT J. PATTON, ACTING CHIEF COUNSEL; AND EVERETT PYATT, ASSISTANT SECRETARY, SHIPBUILDING AND LOGISTICS, DEPARTMENT OF THE NAVY

Mr. GAUGHAN. Good morning, Mr. Chairman and members of the subcommittee.

My name is John Gaughan, and I am the Maritime Administrator of the Department of Transportation.

It is a pleasure to appear this morning to present our views with respect to S. 1929 and S. 1935, two bills pertaining to the U.S.-flag cruise ship industry.

Mr. Chairman, the administration strongly supports the U.S.-flag cruise industry and strongly supports our cabotage laws. Economic benefits naturally flow from the operation of modern, efficient passenger vessels under the U.S. flag.

While additional troopship capacity is not a defense priority, additional U.S.-flag passenger vessels would have an indirect national security benefit of providing more flexibility during a national contingency, and additional jobs for U.S merchant seamen.

Although the coastwise laws reserve this employment for U.S. vessels, repeated attempts to revitalize this industry have been unsuccessful.

Unfortunately, in spite of the optimism that we all felt several years ago, the development of a strong U.S.-flag cruise presence has not yet materialized. American Hawaii Cruises operates two large traditional passenger/cruise vessels in weekly cruises among ports within the State of Hawaii. The remainder of the domestic cruise market is currently served by smaller vessels, such as river steamboats, excursion boats, and coastal vessels. These ships offer cruises between U.S. ports on the inland waterways or along the U.S. coasts.

As you know, to be eligible to operate in the U.S. domestic trades, a vessel must be constructed in the United States, owned by a U.S. citizen, and documented under U.S. registry. In addition, a U.S.-flag vessel with coastwise trading privileges can lose that right if it is transferred to foreign registry.

The burgeoning deep sea cruise industry based on our shores is virtually dominated by an ever-growing number of foreign ships. This is possible because the foreign cruise lines operate either between the U.S. and foreign ports or call at U.S. ports on an in-transit basis, as permitted by current law and regulations.

The bills being considered here today are pragmatic attempts at establishing an American beachhead in this market.

The potential benfits to the seriously depressed U.S. merchant marine could be significant. It has been estimated by the proponents of S. 1935 that the bill alone would provide over 1,000 badly needed seagoing jobs. Both bills would also result in new shipyard work with consequent employment benefits.

With respect to the bills before the subcommittee this morning, the first bill, S. 1935, permits five foreign-flag passenger vessels that were constructed abroad to be reflagged as U.S. vessels and operated in the coastwise trade. Ten foreign-flag vessels appear to be eligible for consideration under S. 1935. These are the *Cunard Princess, Cunard Countess, Stardancer, Atlantic, Fairsky, Tropicale, Nieuw Amsterdam, Noordam, Song of America,* and possibly the *Royal Princess.*

We have no factual information as to which of these vessels would be the first five to apply for reflagging and operation in the U.S. coastwise trade under the bill, but past legislative efforts indicate that the *Cunard Princess* and the *Cunard Countess* probably would be among those vessels.

Mr. Chairman, in principle, the Department favors legislation providing a limited and temporary exception to the cabotage laws for reflagging passenger vessels for operation in our coastwise trade. Any such legislation should not unnecessarily restrict the number of the ships that could apply for a limited number of reflaggings. There should be adequate assurance that existing or future coastwise qualified U.S. cruise operators will not be disadvantaged.

Reflagged ships should be modern and efficient vessels that are both commercially and militarily useful acquisitions to the fleet.

Finally, provision should be made for the maximum feasible participation of U.S. shipyards in any necessary conversion or repair work.

Indeed, the U.S. seagoing and shipyard employment generated by any such legislation is one of the prime considerations for our approval. S. 1935 in its current form does not meet the criteria I have just outlined. However, if legislation were developed to meet the criteria, the Department would support such a bill.

Last September, we testified before this subcommittee on S. 1461, a bill that authorizes the reflagging of certain U.S. constructed passenger vessels that lost their coastwise trading privileges by being transferred to foreign registry. At that time, we informed the subcommittee that reflagging such passenger vessels could be consistent with the twin goals of revitalizing the fleet and preserving the coastwise laws if such a proposal were couched in more limited terms than those proposed in S. 1461.

We further testified that if the proposal not only required that any shipyard work on eligible vessels be done in the United States, but also that existing U.S.-flag ships were not disadvantaged, that such vessels be both commercially and militarily useful acquisitions to the fleet, and that such vessels be modern and efficient, the Department would support reflagging for cruise operations.

The second bill before the subcommittee this morning, S. 1929, permits the hotel structure and facilities of certain new passenger vessels for the coastwise trade to be constructed abroad. Upon the introduction of S. 1929, Senator Mathias indicated that the purpose of the bill was an attempt to provide work for certain domestic shipyards.

Mr. Chairman, as you know, under current criteria applied by the U.S. Coast Guard for the documentation of passenger vessels for operation in the coastwise trade, the reconstruction of hotel spaces may be performed in foreign shipyards, but the new construction of hotel spaces must be performed in U.S. yards.

S. 1929 resolves this disparity by authorizing such construction in foreign shipyards. We believe that the work generated for U.S. shipyards by this approach justifies a departure from the current practice which has had the practical effect of precluding the construction of new U.S.-flag deep-sea cruise vessels.

As a result, we would support S. 1929, with minor modification. We would be pleased to work with your subcommittee in developing suitable legislative initiatives.

Mr. Chairman, that concludes my prepared statement.

As always, I am pleased to answer any questions that you or members of the subcommittee may have.

Thank you.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS

Question. The American Ship Building Company has said that if S. 1935 is enacted it will not go ahead with its plans to construct, own, and operate the two passenger cruise vessels. That, of course, would mean:

Additional shipyard jobs won't materialize;

Additional sea-going jobs won't materialize;

The chances for building even more vessels in U.S. yards will be effectively killed.

Moreover, according to the JMC report, only the two Cunard vessels want to take advantage of S. 1935.

In your view, do the benefits which the U.S. economy and our merchant marine would receive from admitting the two Cunard vessels into our Jones Act trades outweigh the disadvantages?

Answer. Certainly, any project that materialized to build new passenger cruise vessels would result in shipyard and seagoing jobs. On the other hand, reflagged foreign-built vessels, as a practical matter, represent seagoing jobs and some shipyard jobs and a U.S. cruise trade presence. While various proposals for U.S. construction have shown promise at times, unfortunately, to date the vessels have not materialized. It is a difficult policy problem. As we testified we cannot support S. 1935 as drafted.

Question. (a) Given the fact that a re-flagged foreign-built cruise vessels would have capital expenses that were considerably lower than those of newly built vessels in U.S. yards, wouldn't the U.S. vessels be at a substantial competitive disadvantage?

(b) Isn't that one of the protections of the Jones Act? The playing field is level, because all operators in our domestic trades must play by the same rules.

(c) If a re-flagged vessel would have a substantial competitive advantage, isn't it reasonable to assume that the likelihood of a foreign-built vessel coming into our domestic trades, would make it highly unlikely that anyone would invest substantial capital to construct a vessel in a U.S. yard to operate in competition with that re-flagged vessel?

Answer. (a) The U.S. vessels would be at a disadvantage in terms of capital cost. As indicated in my testimony, there should at least be some protection afforded to operators of U.S.-built vessels.

(b) The Jones Act only assures that U.S. vessels in the domestic trade will pay the U.S. construction cost prevailing at the time they are built.

(c) The likelihood would almost certainly be reduced, and there at least need to be revisions to S. 1935 that would protect operators of U.S.-built vessels from unfair competition by reflagged vessels.

Question. In your view, is it significant that over the past 6 years no foreign-built vessels other than the two Cunard ships have sought to qualify for Jones Act privileges? In other words, why has no one else been interested?

Answer. The Department of Transportation has no empirical information as to whether foreign-built passenger vessels, other than the two Cunard vessels, are sincerely interested in acquiring Jones Act privileges.

Question. In previous testimony before the Subcommittee MarAd has said there is a substantial difference between legislation such as that which enabled the Constitution and Independence to re-enter our Jones Act trades, and legislation to admit foreign-built vessels.

Because in one case the vessels were built in U.S. yards, which is one of the objectives of the Jones Act.

Is this still MarAd's position?

Answer. As I mentioned in my testimony, in principle, the Department favors legislation providing a limited and temporary exception to the cabotage laws for reflagging passenger vessels for operation in our coastwise trade. Any such legislation should not unnecessarily restrict the number of the ships that could apply for a limited number of reflaggings. There should be adequate assurance that existing or future coastwise qualified U.S. cruise operators will not be disadvantaged. Reflagged ships should be modern and efficient vessels that are both commercially and militarily useful acquisitions to the fleet. Finally, provision should be made for the maximum feasible participation of U.S. shipyards in any necessary conversion or repair work.

Senator STEVENS. Thank you very much, Mr. Gaughan.

Let us hear next from Secretary Pyatt.

Mr. PYATT. Thank you.

Basically, our interests in this are peripheral, in that our requirements do not show a large demand for passenger ships for military use. What is available is enough.

However, ideas that would bring additional capability into the U.S. fleet that might compensate for future retirements or anything like that would be desirable from our point of view. Also, if additional U.S.-flag vessels came into the fleet, that would mean more merchant marine jobs. These seafarers then would become available for defense uses, should that be necessary.

I believe S. 1929 is a step in the right direction to recognize the industrial capacities of the countries involved and utilize those capacities in the best way. I would think it would contribute to the ability of U.S. shipbuilders to become competitive in this market.

I did not know of the announcement by American Shipbuilding that they were going to build some cruise ships. It is welcome. I hope it is for real and I hope that in this discussion, what we are doing, what you are considering, does not thwart that. The same would be true for the reactivation of the S.S. *United States.* That company has been working hard at it and the ship would provide an interesting capability. There are some financial problems, I understand. But I would hope that within this process, initiatives of Americans to respond to a world market are fully recognized.

Senator **Stevens**. Thank you very much.

Senator Trible, do you have an opening statement?

Senator **Trible**. I do not, Mr. Chairman.

Thank you very much.

Senator **Stevens**. Thank you.

We appreciate your coming.

Mr. Secretary, I have to tell you that this is the fourth year we have been considering the cruise ship issue. This is the fourth year we have heard that if we did not pass the bill, there would be immediate initiation of construction on domestic cruise ships. As far as I am concerned, seeing is believing. I would be happy to be invited to the christening of the first U.S.-built cruise ship, and would be pleased to perform any embarrassing act that would be necessary in order to convince people to do it.

Mr. **Pyatt**. I would be happy to be invited to the contract signing.

Senator **Stevens**. Yes. Just to see the money on the line would be interesting.

Mr. **Pyatt**. Yes, sir.

Senator **Stevens**. I agree with you.

Mr. Gaughan, regarding the criteria that you mentioned, we would be happy to see some draft language so that we might have some concrete understanding of what you have suggested in the way of modification.

Could you provide a drafting service for us and a revision of the bills to meet your suggestions?

Mr. **Gaughan**. We most certainly would do that, Mr. Chairman.

Senator **Stevens**. We would be happy to have your suggestions.

I have to add to the record a letter from Lloyds Maritime Data Network. It states that the company has searched the register of ships and has provided us with a list of 12 vessels which in their opinion have in excess of 400 passenger cabins with modern facilities that would meet the criteria currently set forth in S. 1935.

Unless there is some objection, I would make that a part of the record.

[The letter follows:]

LLOYD'S MARITIME DATA NETWORK, INC.,
Stamford, CT, May 19, 1986.

Re Ad hoc search S. 1935.

Senator TED STEVENS,
Chairman, Merchant Marine Subcommittee, Committee on Commerce, Science and Transportation, Washington, DC.

DEAR SENATOR STEVENS: Pursuant to your request, we enclose herewith a copy of our ad hoc search of all passenger vessels classified by Lloyd's Register of Ships as of today.

We are a wholly owned subsidiary of Lloyd's Maritime Information Services, and provide vessel characteristics information on-line based on LR data.

As requested, our search included only those passenger vessels originally delivered solely for passenger cruise service between June, 1974 and June, 1984 (2-12 years).

Our findings indicate that of the 260 passenger vessels that qualify, 64 meet the passenger/cruise function of which 42 are registered in the USSR, People's Republic of China, or East Germany.

None of these vessels have in excess of 400 passenger cabins, and therefore would not meet all the criteria set forth in S. 1935.

Although our database does not have the capability to determine how many passenger cabins are on board, it is our opinion that 12 vessels have in excess of 400 passenger cabins with modern facilities, namely:

M.S. *Atlantic*—Liberia; M.S. *Europe*—W. Germany; S.S. *Fairsky*—Liberia; M.S. *Cunard Countess*—Great Britain; M.S. *Cunard Princess*—Bahamas; M.S. *Nieuw Amsterdam*—Netherlands Antilles; M.S. *Noordam*—Netherlands Antilles; M.S. *Pegasus*—Greece; M.S. *Song of America*—Norway; M.S. *Silja Star*—Finland; M.S. *Star Dancer—Bahamas; and M.S. Tropicale*—Liberia.

Nine of these vessels are permanently based in the U.S. market and the balance call at U.S. ports on an irregular basis.

We are happy to be of service to you, and if you have any questions, please call me at 1-800-423-8672.

Sincerely,

PHYLLIS SHEARN,
Manager of Subscriber Services.

Senator STEVENS. Senator Inouye.

Senator INOUYE. I would like to ask the Administrator if he has any thoughts on the American Shipbuilding Co.'s announcement.

Mr. GAUGHAN. Mr. Chairman, Senator Inouye, I, too, welcome that announcement. Quite frankly, when I heard it, I talked to one of their representatives, and the first question that I put to him was, "Is this for real?" Based on the representations that were given me, it does appear to be a very serious effort, sir. But I would also share the chairman's view that seeing is believing.

Senator INOUYE. You stated in your testimony that the administration does not support legislation which would disadvantage existing or future coastwise qualified cruise operators. By "coastwise" do you include Alaska and Hawaii?

Mr. GAUGHAN. Oh, yes, sir. I most certainly do.

Senator INOUYE. If you include Alaska and Hawaii, what is the effect on the administration's position of American Shipbuilding's statement that it will not go through with its plans to operate and build if the bill is enacted.

Mr. GAUGHAN. Senator, as I said in my prepared remarks, we are not prepared to support S. 1935 as it is presently drafted.

One of the criteria that we would be looking for is language that would address the issue of either present or future U.S. operators to insure that they were not disadvantaged.

So we would certainly be looking toward working with the subcommittee language to provide that type of protection.

What comes to mind, Senator—and I don't mean that this would be the only approach—is this. In the legislation enacted on Puerto Rican passenger vessels, there is a provision which provides that if comparable service became available, the foreign-flag operator would have to leave that trade within 270 days.

That is one example of the type of protection that can be built in.

Senator **Inouye**. Title XI is one of our basic maritime programs to promote U.S. shipbuilding and the U.S. fleet.

It is statutory, and I believe there is about $2 billion in unused mortgage guarantee authority in the program. Moreover, by law, only Congress, in an authorization bill, can place a further ceiling on MarAd's authority to make title XI guarantees.

If the American Shipbuilding Co. qualifies under MarAd's title XI regulation, is there any reason why MarAd would not consider a title XI application from the company?

Mr. **Gaughan**. There is no reason why we would not, sir.

Senator **Inouye**. If the Cunard Lines' two ships are permitted to operate as set forth in the measure, would they be able to compete with the present foreign vessels that are plying the Caribbean?

Mr. **Gaughan**. If you are asking if that is based on operating costs of an operator, I would say that I believe they probably would be able to compete, depending on what type of market they went after, and so forth, particularly if it were a luxury class or if offered something unique. Again, it would depend, in some cases, on the manning agreements and the crew to passenger ratio, and so forth. There certainly would be higher operating costs, potentially higher operating costs, to them.

But the market studies show that there is a market out there, sir.

Senator **Inouye**. Mr. Chairman, I have a few more questions that I would like to submit in writing.

Thank you very much.

[The following information was subsequently received for the record:]

Question. As to the 11 U.S.-owned, foreign-flag cruise vessels which the Navy could requisition in time of emergency:

What do you mean "they are available at least 4 days each week?"

Do these 11 vessels normally operate in waters relatively near the United States, so that they would be readily available?

Answer. Four cruise lines operate nine U.S.-owned cruise ships from the port of Miami. Two lines operate two U.S.-owned cruise ships from the port of Los Angeles. All the cruises are short, rarely, if ever, more than seven days from port. All eleven ships are available (within 48 hours of their U.S. port) at least four days per week.

Senator **Stevens**. Thank you very much.

Mr. Secretary, I forgot to ask you something.

During the problems of Grenada, it is my understanding that there was a hiatus in finding troopships, notwithstanding the reserve concept that you mentioned.

Is that correct?

Mr. **Pyatt**. I think there was for a short time, but it was quickly solved.

I think I should provide an answer for you for the record.

Senator Stevens. I appreciate that because I think we ought to confirm the actual availability of vessels or stop making reference to the reserve fleet and the effective U.S.-controlled fleet.

It was our understanding that the United States attempted to charter a British-flag vessel during the Grenada crisis for the possible evacuation of U.S. citizens and that there were no charters available to us at that time.

Do you want to confirm that for the record?

Mr. Pyatt. I would like to answer that for the record. Yes, sir.

Senator Stevens. Fine.

[The following information was subsequently received for the record:]

> On 24 October 1983, the U.S. Embassy at Bridgetown, Barbados, telexed an explanatory request to the Cunard *Countess* via the ship's agent. The Embassy requested that the ship consider the possibility of making an offshore call the next day at Grenada, if so requested, and use the ship's tenders to assist the departure of up to 300 U.S. citizens. There was no formal request to charter the ship and the invasion on 25 October 1983 obviated any attempt to evacuate U.S. citizens until the island was secured.

Senator Stevens. Mr. Gaughan, you indicated that there would be no problem about the use of title XI guarantees. Have there been any application for title XI guarantees for conversion or construction of cruise ships filed with your agency?

Mr. Gaughan. Mr. Chairman, my recollection is that I presently have four applications pending, two for inland and two for oceangoing vessels. Three of those, if my recollection is correct—and if it is not I will correct the record—are for new construction of smaller sized passenger vessels, and one of those is for reconstruction of an existing vessel.

Senator Stevens. Are any of the applications for construction of new vessels in the area that we are talking about, in excess of 400 passengers?

Mr. Gaughan. I don't believe so, sir.

I do have some information with me and I will check it right now. But I do not believe the new construction is of that capacity.

Senator Stevens. With respect to the drafting service you are going to provide us, I certainly have no problem with a total prohibition against competition with existing U.S. operators, such as the interisland trade to Hawaii. We are envious of that trade and wish we had a similar one to Alaska. We have a whole series of foreign cruise ships coming to Alaska. It is increasing this year to well over 100 visits. But not one of these vessels is under the U.S. flag.

We appreciate your testimony, gentlemen, and your help, and yours also, Mr. Patton and Mr. Bourdon.

Our next panel will consist of the president of the Seafarers International Union, Frank Drozak; the president of district I of the National Marine Engineers' Beneficial Association, Mr. DeFries; and president of District II of the National Marine Engineers' Beneficial Association, Mr. McKay.

I have already noted your prose, Mr. DeFries, in your letter to Senator Inouye:

> Many a young bachelor will see a glamorous actress on the screen who conforms to the specification he is looking for in a girl of his dreams. She is, however, as eligible for that bachelor as the cruise ships listed in the proponents' letter. The logic

here, that because vessels of a certain size and shape merely exist mean they are likely to be affected by S. 1935, defies comment.

That is very interesting. I just want to point out that I have a friend who did see such an actress and did marry her. That is all I can tell you.

Mr. DeFries. Your comment is accepted, Mr. Chairman.

Mr. McKay. Mr. Chairman, before we start, I would like to apologize to you and the committee for not having a tie on this morning.

I have a few stitches in the back of my neck, and the tie makes it very uncomfortable.

I knew you would understand.

Senator Stevens. Mr. McKay, there was a time that you may remember during World War II and the period right after that, when this town was treated as a tropical town and people were not required to wear ties. I wish that despite our current exposure on television we would return to that period of common sense.

So we congratulate you.

Mr. McKay. I agree with you and I hope the stitches are not the way to bring that about.

Senator Stevens. Mr. Drozak, you are listed first, so we will proceed with you, if you will, please.

STATEMENTS OF FRANK DROZAK, PRESIDENT, SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA, AFL-CIO; C.E. DeFRIES, PRESIDENT, DISTRICT I, NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION, AFL-CIO; RAYMOND T. McKAY, PRESIDENT, DISTRICT II, NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION, AFL-CIO

Mr. Drozak. Thank you, Mr. Chairman.

Mr. Chairman, on behalf of the SIU, the Seafarers International Union, I would like to thank this subcommittee for this opportunity to present our views on efforts to expand the U.S.-flag cruise industry.

Our written statement presents a detailed overview of our perspective on this issue. I would like to briefly offer some of those points and present some additional viewpoints which have bearing on this issue.

I would also, Mr. Chairman, request that my entire statement be entered into the record.

Senator Stevens. We will place your entire statement and all of the statements presented today into the record.

Mr. Drozak. Mr. Chairman, in addition to that, I have additional information that I would like to submit, other than my statement.

Senator Stevens. Very well.

Mr. Drozak. Thank you.

We believe the economic benefits of reflagging foreign-built cruise ships are numerous, and include increased seagoing and shore-side job opportunities, increased shipyard employment related to conversion, maintenance, and repair work, additional revenues for U.S. ports and local economy, and tax revenues for Federal, State, and local treasuries. Also, reflagged cruise ships will provide needed troop lift capacity and employment opportunities for the dwindling seafarer labor pool required by the military for national security purposes.

In addition, reflagging makes sense since few restrictions remain in effect to limit the operation of foreign-flagged cruise ships in U.S. waters. For example, the elimination of the U.S. Public Health Service inspection, the end of the 24-hour rule, and the use of nearby foreign ports effectively skirt U.S. coastwise laws.

A prime example was the NBC telecast of the "Today" show from the S.S. *Norway*, which made but one brief foreign stop on what was otherwise a domestic cruise itinerary.

We have heard that support for cruise vessel reflagging measures undermines the Jones Act. However, in our view, a clear difference between the cargo and cruise trades must be recognized.

Waterborne commerce accounts for 20 percent of the domestic cargo ship. Of these cargoes, almost 90 percent is liquid bulk, carried in tankers and tank barges. Most of our Nation's militarily useful tankers are engaged in the Jones Act trade. We have supported U.S. bill requirements for that portion of the fleet in order to protect our shipyard mobilization base.

Likewise, substantial investments have been made in U.S.-built tonnage, and it would be unfair to ask a domestically built vessel or barge to compete against a low-cost vessel built overseas.

Preserving our industry's role in the movement of domestic cargo is a worthwhile policy which we fully support. Unlike the cargo trade, however, foreign-built, foreig-flag cruise vessels already operate freely between U.S. ports. Thus, in our opinion, reflagging foreign-built cruise vessels will not endanger the integrity of the Jones Act.

Today, the deep sea U.S.-flag cruise vessel fleets carry 2 percent or less of the passengers embarking from U.S. ports. We can claim those small percentages only because common sense prevailed in the past. If Congress had not shown the wisdom to apply a reasonable flexibility to the application of coastwise passenger ship laws, we would have no deep sea cruise ship fleet at all.

Over the last 10 years, both the Government and industry have often been told of plans to domestically construct full service deep sea cruise liners. Advocates of these domestically built proposals have repeatedly claimed that legislation proposals, such as S. 1935, work to undercut investment potential.

It is my belief that if any of these proposals were economically viable and had the potential for profit, we would not be here today discussing the reflagging of foreign ships.

The truth of the matter is that these U.S. building projects died of their own financial inadequacies and not because of reflagging legislation.

Furthermore, as long as foreign-flag liners with their much lower capital costs continue to operate with as much freedom in the coastwise trade as they presently do, any domestic building is unlikely to occur.

We believe that there is a substantial body of opinion within the Department of Defense and elsewhere which recognizes that a national security justification exists for reflagging foreign-built cruise ships.

In 1979, when efforts were made to provide legislative relief for a number of potential U.S.-flag cruise liners, proponents correctly cited national security as a reason to support their waiver request. Since national security was so evident in the logic of suporters then, why doesn't it justify reflagging additional tonnage now?

The subject of cruise ships has also entered into other national security discussions. For example, currently there is disagreement with the Department of Defense regarding building and charter proposals. Some have argued that these funds should be used for the construction of cruise ships. That would shift the high cost of U.S. building from the private sector to the public sector. However, it does not conform to the Department of Defense sealift agenda.

The Navy has clearly and repeatedly stated its pressing need for product tankers and would like to use any available building and charter funds for their construction. Therefore, it is doubtful that cruise ships could receive any funds from that or any other government source for any building proposal.

If they did, the question of a subsidized vessel operating in the domestic trade would have to be addressed.

In November 1980, an industry newspaper proclaimed that the *Monterrey* would enter the service starting the following spring. One year later, when Congress considered the subject of the U.S.-flag cruise industry, the *Monterrey* still had not entered service.

Again, it was promised that all necessary work would be completed in 70 working days. Now, nearly 6 years after those promises were made, the work still has not begun. Since those promised were unfulfilled during a time when no legislation was being discussed, it is unfair to describe reflagging as the cause for the lack of progress.

Similarly, for almost 10 years, efforts to place the *United States* into service have been made, but have not been successful. Last year, Congress was told that development plans for the *United States* were completed for renovation in a West Germany yard. As has been the case in all proposed rebuilding projects to date, no action has been undertaken.

In 1986, we find the operators of the *United States* seeking a title XI construction loan guarantee on a $150 million project. The probability of MarAd's approval of adequate Government guarantees is unlikely in light of Gramm-Rudman budgetary reductions which limit this program.

Presently, MarAd is limited to making available only $66 million on title XI applications, totaling $200 million for cruise vessels alone.

We know that there have been recent announcements of plans to build vessels for the interisland Hawaii trade. This is not a unique development. Almost without exception, each congressional hearing on reflagging is preceded by press releases announcing plans for a domestic cruise vessel to be constructed in an American yard.

Most of these announcements have never moved beyond the initial planning stage and none has ever been finalized.

Even if this most recent construction project is successful, most U.S. coastwise trades would be left unserved.

Some have claimed that the focus of current reflagging efforts is too narrow and the amount is nothing more than special interest legislation. If the legislation, as drafted, is considered inadequate, we urge amending language that would broaden eligibility requirements for reflagging. Requirements regarding the number of berths, and the years of construction should be broadened to increase the number of reflagging candidates.

In addition, we would support language which would protect the interests of existing U.S.-flag cruise operators. If anyone has any other reasonable suggestion to restructure reflagging measures to appeal to a larger audience, let them come forward.

The SIU is not set in concrete. We have an open mind on this issue and urge others to have the same.

In closing, Mr. Chairman, I would urge this subcommittee to act favorably on these legislative proposals and report them to the full Senate for its consideration.

We believe this legislation represents a much needed shot in the arm for the industry by creating new seagoing jobs and maintaining a manpower pool for national security.

Thank you.

[The statement and questions and answers follow:]

Statement of Frank Drozak, President, Seafarers International Union of North America, AFL-CIO

Mr. Chairman and Members of the Subcommittee, as President of the Seafarers International Union, representing American seamen employed on U.S.-flag vessels working in America's domestic and foreign trade, I would like to thank you once again for addressing the important issue of U.S.-flag passenger vessels and the revitalization of the U.S.-flag, deep-sea cruise ship industry.

Over the last decade the Seafarers International Union has consistently advocated that Congress take steps to assist the redevelopment of the U.S.-flag cruise vessel fleet. We have supported what we believed were reasonable proposals that would enable the nation to benefit economically and strategically from the reintroduction of this vessel class to our active commercial fleet. Those proposals included S. 1461, which would have reflagged U.S.-built, but foreign registered, vessels for coastwise trading privileges. We also supported the reflagging of the *Independence* and *Constitution* as well as enactment of the shipboard convention deduction which we have striven to preserve in the U.S. tax code. We are pleased that S. 1935 would create a window of opportunity to foster further expansion of the domestic fleet.

STATUS OF THE U.S. CRUISE MARKET

Expansion of the U.S.-flag cruise vessel fleet is a logical result of the growing economic importance of the cruise industry which has grown from a $1.3 billion business in 1976 to over $5 billion in 1984. The industry grew 15% between 1983 and 1984 alone. Only air travel surpasses cruise sales as a source of revenue for the travel industry.

Statistics show that the number of passengers embarking from U.S. ports has increased from 590,000 in 1979 to well over 3 million in 1985, representing a growth of over 400% in the past seven years. The Port of Los Angeles, for example, has experienced an increase in passengers of over 300% between 1979 and 1985, representing an average annual growth rate of 27.6%. The Port of Miami, the largest cruise port in the world, has witnessed a 75% increase in passengers for the same time period and 1985 was a record year for Miami with 1,415 sailings and over two million passengers. San Juan, Puerto Rico received 742 cruise ship calls carrying 540,000 passengers in 1985, up from 598 ship calls and 440,000 passengers in 1984. San Diego, a newcomer to the cruise market, has leaped from zero passengers in 1979 to over 67,000 in 1985. We feel that this booming industry will easily support an expanded domestic cruise ship fleet.

Recent terrorism in Europe and the Middle East, including the TWA hijacking last June, the October seajacking of the *Achille Lauro* in the Mediterranean, the Egyptian jet hijacking, the massacres at the Rome and Vienna airports, the March TWA bomb near Athens, the April Berlin disco bombing and the latest U.S.-Libya conflict, has greatly reduced the number of Americans vacationing abroad. Douglas

Freckling, Director of U.S. Travel Data Center, recently stated in The Washington Post that 1.8 million Americans have changed or cancelled their plans to travel abroad because of terrorist incidents. In addition, the falling value of the U.S. dollar will discourage many Americans from traveling abroad and will entice foreign vacationers to come to America. Those who come for oceangoing cruises will channel much of their expenditures into foreign economies.

Mediterranean cruises normally account for 20% of the worldwide market, however, several lines are pulling out of the Mediterranean trade and many are moving to the Caribbean and Alaskan trades as well as a variety of so-called "cruises to nowhere" from U.S. ports. A spokesman for the World Ocean and Cruise Liner Society, a 400-member group said, "Just about half of those who advertised in the brochures have pulled out—four to five of the eight to ten cruise lines in the Mediterranean have left."

The large increase in passenger bookings is being absorbed by incoming, repositioned, foreign-flag cruise ships. The cost of repositioning a ship into a new market will most likely require those ships to remain in the U.S. market for several years. This will further entrench foreign-flag interests and make the expansion of the U.S.-flag cruise fleet more difficult, if not impossible, to achieve if we do not act now. In fact, some industry analysts have estimated that an additional 40 foreign-flag cruise ships may be repositioned in the U.S. market as a result of terrorist-related cancellations.

An expanded U.S.-flag fleet, drawn from among the numerous vessels eligible for consideration under S. 1935, would likely develop its own healthy market niche. Royal Viking Line sources have said that 40% of their passengers are repeat customers. A Port of San Francisco survey of cruise passengers found that 9 out of 10 passengers indicated that they would cruise again. This demonstrates client satisfaction and is evidence of a strong market which unfortunately is almost exclusively the domain of foreign-flag interests. Additional U.S.-flag cruise vessels have the potential to open up new domestic cruise trades on all coasts. These domestic cruises may attract more Canadian and other passengers and will not necessarily have to visit a foreign port.

U.S.-flag cruise ships could capture the fly/cruise trade where passengers embark at one U.S. port, cruise one-way, disembark at another U.S. port and fly home. This service is one of the few itineraries which cannot yet be offered by foreign-flag ships. At present, over 95% of the fly/cruise trade to Alaska are U.S. passengers. They fly to the Seattle-Tacoma Airport and are bussed directly to Vancouver, British Columbia. The Port of Seattle and other west coast ports lose a great deal of business because there is no available U.S.-flag service to Alaska. S. 1935 can make ships available to provide direct one way service from one U.S. port to another. This would enhance U.S. passenger convenience as well as U.S. port revenues.

A large number of ports have demonstrated optimism regarding the cruise industry by investing millions of dollars into new or expanded passenger facilities and by implementing aggressive marketing strategies. The Port of Los Angeles is currently in the middle of a $200 million port redevelopment project which includes the World Cruise Center. The Vancouver, British Columbia Port Corporation has spent $27 million on an outstanding cruise ship terminal to serve the flourishing Alaska cruise trade. In fact, Vancouver is already fully booked for the summer and the overflow has been directed toward New Westminster, British Columbia, a previously closed port, rather than Seattle, to handle Alaska cruises. The U.S. west coast loses out again. Seattle was considering a $40 million cruise passenger facility. However, the plan was reportedly dropped since no U.S.-flag service was available.

The Port of Boston has authorized a $4 million terminal in anticipation of future cruise business. Two terminals have been completed at the Port of Tampa and two more are planned. The Port of Palm Beach welcomed its first home-based cruise line last year.

The larger coastal and island ports are not alone in preparing for the escalating cruise business. The renaissance of many major American waterfront districts such as those in Alexandria, Virginia; Atlantic City, New Jersey; Baltimore, Maryland; Boston, Massachusetts; Charleston, South Carolina; New Orleans, Louisiana; Savannah, Georgia; Chicago, Illinois; Detroit, Michigan; and New York's South Street Seaport will make ideal U.S.-flag cruise ports, affording first time and repeat passengers an alternative to the Caribbean. For the most part, port improvements of this type are financed by publicly issued bonds or head taxes paid by embarking passengers who are predominantly U.S. citizens. In effect, the taxes paid by Americans are used to construct facilities which then enhance the operations of foreign-flag vessels. The developments that are taking place in U.S. and neighboring ports signify the importance of the cruise industry; an industry in which the U.S.-flag fleet should be more actively participating in.

The ports of Miami, Los Angeles, San Francisco, San Diego, Seattle and New York/New Jersey have conducted, or are in the process of conducting, market studies regarding the cruise ship industry. These efforts signify a recognized potential. Various promotional campaigns have been implemented to capture the increasing market. Premier Cruise Line of Port Canaveral, a previously minor port, is offering Disney World/cruise packages. Last year, the San Juan Port Authority approved special incentive rates and volume discounts to attract more business. These efforts, along with other fly/cruise packages and cruises to nowhere, demonstrate that the market is strong and that opportunities exist in the domestic cruise market. However, only foreign-flag operators benefit at this time.

The U.S. cruise market's state of affairs must be described as one of foreign-flag dominance, high U.S. building costs, relaxed U.S. customs regulations which contribute to foreign-flag dominance and the common diversion of cruise ships to foreign ports. These factors combine to restrict an already minute U.S.-flag cruise ship fleet.

Of the approximately 19 cruise lines operating in the United States, only one, American Hawaii Cruise Lines, is U.S.-owned and U.S.-flag. Oceangoing U.S.-flag cruise ships represent only a fraction of the total North American cruise passenger capacity. In 1983, U.S. passengers accounted for $2.6 billion of the $3.5 billion worldwide cruise sales of the more than 1.8 million plus passenger bookings in 1985, only 2% sailed on U.S.-flag cruise ships. Although the U.S. domestic cruise market accounts for an estimated 75% of the world's cruise market, the United States has little opportunity to gain from this business because of insufficient vessel capacity.

Another unavoidable factor in today's cruise ship industry is the high cost of building a cruise ship. Building costs have prevented the construction of new U.S.-built cruise ships. Some have claimed that a new, cost-effective U.S.-flag passenger vessel fleet will emerge from U.S. shipyards. Although we wish that such was the case, unfortunately all available information that we have seen indicates that it is highly improbable if not impossible. During the 1970's, when building costs for conventional tonnage increased by 100%, the cost of building cruise vessels increased by 500 to 600%. In our view that is an obstacle which is too great for even the skilled and dedicated U.S. shipyard management and labor to overcome. In fact, no passenger vessels have been built in the U.S. for nearly 30 years. Further, no additional active passenger vessels have been added to the U.S. fleet since 1981 despite a myriad of proposed projects and refurbishing programs.

Currently, the Maritime Administration has pending two Title XI loan guarantee applications for oceangoing cruise vessels and one for six Subchapter T cruise vessels. These applications total over $200 million of $241 million in pending applications. It is unlikely that these applications will be approved since under the Gramm-Rudman-Hollings budget-balancing law, the Maritime Administration can issue no more than $66 million in Title XI loan guarantees for FY 1986. The agency has already borrowed $1.2 billion from the Treasury in the past eight months and the Administration wants to terminate the program in FY 1987.

According to industry experts, the cost of a foreign-built cruise ship varies from $140 million to a $175 million. It has been estimated that the cost of constructing U.S.-built cruise ships in 1987 dollars is $210 million for a 700-900 passenger, 550-foot vessel and $380 million for 1,300 to 1,500 passenger, 770-foot ship. If one accepts the premise that cruises offered by U.S.-flag operators must be cost competitive with foreign-flag ships, it should be clear that passenger revenues for cruises aboard an unsubsidized U.S.-built ship would be insufficient to cover operating costs.

Building cruise ships is a truly complex and difficult business requiring tremendous expertise. The cruise ship is novel in that it has several additional features including deck and recreational space, ventilation systems and noise and vibration reduction designs, which have no other purpose than to increase the comfort of the passenger. Problems arise in even the most experienced shipyards. For example, the President of Fearnleys, Ltd., speaking at the 1984 Cruise Shipping Conference related, "The tragedy of seeing all our friends in management of a good West German shipyard having to leave their jobs after we ordered and they completed the *Island* and *Sea Adventure* for our sister company Fearnley & Eger. The contract prices were about 65 million deutchemarks per vessel. The yard's losses were over 50 million deutschemarks per vessel." Ironically, these vessels, the *Pacific* and *Island Princesses* now owned by P & O, are the stars of the "Love Boat" TV series which was instrumental in generating public awareness of cruise vacations.

In our view, the best method for increasing the U.S. cruise ship fleet would be to pass legislation which allows a number of foreign-built ships into the U.S. registry to take advantage of the growing domestic cruise market.

REALITIES OF FOREIGN-FLAG COASTWISE TRADING PRIVILEGES

The size and potential for growth in the U.S. market and the staggering level of cancellations on Mediterranean cruises are not the only factors which attract foreign-flag cruise vessels to U.S. ports.

Foreign operators are well aware that there are few restrictions on their activities in the U.S. coastwise trade. The major governing authority in this case is based on the Passenger Act of 1886 (46 U.S.C. 289) which is a one sentence statute declaring: "No foreign vessel shall transport passengers between ports in the United States, either directly or by way of a foreign port, under penalty of $200 for each passenger so transported and landed."

This restriction was, of course, written prior to the invention of the automobile and airplane, at a time when vessels were a common means of transportation between points in the United States. Now, auto, air and rail are the primary means of travel within the United States. Thus, the law was crafted to protect a domestic transportation trade which no longer exists.

Since cruise itineraries are leisure oriented and not transportation oriented, it is no surprise that foreign-flag cruise itineraries are routinely approved by the U.S. Customs Service which frequently concludes that: "The primary purpose of the cruise is not considered to be the coastwise transportation of passengers." Thus, no substantive regulatory or legal impediment exists to limit the growth of the foreign-flag cruise fleet serving U.S. ports.

Any doubt about that fact was dispelled when the long-standing 24-hour rule was abolished. The Customs regulations supporting that rule limited foreign-flag port visits to 24 hours and required an equal or greater number of foreign port calls and/or time spent in foreign ports as opposed to time spent in U.S. ports. Now, however, foreign-flag vessels may visit any number of consecutive U.S. ports for any length of time provided that the itinerary includes one foreign port. Current foreign-flag cruise packages offering extended visits in Port Canaveral, Florida, for excursion to Disney World, are just one example of the de facto coastwise privileges foreign-flag operators now enjoy. Even when the 24-hour rule was in effect its pliability offered few impediments to foreign-flag itineraries.

For example, in 1983 the German-flag vessel *Europa* wanted to exceed the 24-hour time limit to allow passengers to attend "ceremonies" in a U.S. port. Although, the extended stay was in violation of U.S. coastwise restrictions, cancellation of the stop less than four months prior to the port visit would have been a violation of German law. The U.S. Customs Service decided in that case German law took precedence over U.S. law and the illegal port visit was permitted.

Other examples of non-protection of U.S. coastwise privileges also reveal the fallacy of restrictions on the activities of foreign-flag operators.

Recently, the Public Health Service terminated its program of routine inspection of food services aboard foreign-flag ships. It was terminated despite a recent upswing in problems. A few weekends ago, more than 2000 people became ill as a result of uninspected facilities.

According to a recent U.S. Customs ruling, passengers embarking aboard a foreign-flag cruise vessel in a distant foreign port were allowed to disembark in Norfolk, Virginia to take an excursion inland and rejoin the vessel in Baltimore, Maryland. Because of the limited and porous nature of coastwise passenger restrictions such an excursion was permissable. However, the fact that the cruise operator made all the arrangements and provided passage between two U.S. ports using land transportation provided by American companies, but not requiring U.S. built assets, is a bitter irony.

We ask only that the nominal coastwise restrictions which do not inhibit the growth of profitability of the foreign-flag cruise industry not be allowed to smother the opportunities to expand the U.S.-flag cruise industry. The momentum created by those economic realities should be rechanneled to provide additional benefits for our own country.

Another problem evident in the U.S. cruise market is the frequent diversion of foreign-flag cruise ships from U.S. ports to nearby foreign ports. This diversion offers foreign-flag operators another method to avoid coastwise restrictions. Seattle, for example, loses business to Vancouver, British Columbia which then serves the market. Since there are no U.S.-flag oceangoing ships serving the West Coast to Alaska route, foreign-flag cruise lines merely require passengers to embark or disembark in Vancouver, or originate in Mexico, with as many U.S. port calls as they so desire.

These factors, foreign-flag dominance, high domestic ship building costs, relaxed U.S. Customs regulations and the diversion to foreign ports characterize the limits to the U.S. cruise trade. Remedial action is needed to address these problems to allow the U.S. economy to reap its fair share of this multi-billion dollar industry.

ECONOMIC BENEFITS

The economic impact of reflagging legislation will be tremendously beneficial. The addition of cruise ships to the U.S. registry, under soundly crafted conditions, will create thousands of jobs for U.S. citizens, add revenues to the U.S. Treasury, reduce the balance of payments deficit, and generate untold millions of dollars in revenues for ports and their surrounding communities. The cruise industry is obviously growing and much of the profit is made from the expenditures of U.S. citizens. It is now time for the U.S. to take part in and capture more of this lucrative enterprise.

An extremely significant positive economic gain from the addition of U.S.-flag cruise ships would be the creation of jobs for U.S. citizens. Using the modest estimate of one crewman for every 2.5 passengers, a ship carrying 600 passengers will employ 240 persons. A ship carrying 1,200 passengers will employ at least 480 persons. Assuming that two different crews would be employed throughout a 1 year period, one ship would employ between 480 and 960 crewman.

Five ships would employ over 4,000 crewman each year. Given the depressed state of both seafaring and shoreside maritime employment, these jobs are badly needed. Currently, the U.S.-flag oceangoing cruise fleet employs less than 1,000 seamen. Each additional ship could add a thousand seamen to the payrolls and the taxrolls.

Not only would such legislation create jobs onboard, but thousands of jobs would be created onshore, in U.S. shipyards, in U.S. ports and in U.S. communities. Foreign-flag cruise ships admitted to the U.S. registry would be required to have all repairs, alterations, rebuilding and conversions completed in U.S. shipyards. It has been estimated that an average of $5 million is required to bring a foreign-flag cruise ship up to U.S. Coast Guard and U.S. Public Health Service standards, not to mention the comforts and entertainment demands of U.S. passengers. The costs may be much higher for larger luxury cruise liners.

U.S. ports and their local communities can expect huge benefits from increased U.S.-flag cruise services. According to estimates generated by the Cruise Lines International Association, the average cruise passenger spends $400 in port during an average stay of 1.5 days on retail goods and services, providing direct benefits to the local communities. For example, the Port of San Francisco has found that cruise passengers bound for cruises of the Hawaiian Islands buy stop-overs averaging 3 days in San Francisco at the rate of 10,000 persons per year, thereby generating revenue for the economy of San Francisco exceeding $4 million per year. This demonstrates the multiplier effect of the two previously reflagged-U.S. cruise ships the *Constitution* and the *Independence*. These benefits, which would not exist if we had not already shown realistic flexibility, can be reaped by a host of other U.S. ports which would be served by the addition of U.S.-flag cruise vessels.

Vessel expenditures, in addition to passenger expenditures, account for thousands of dollars in port and community revenues. The Port of San Francisco estimates that the average per cruise vessel expenditure for stores, provisions, fuel pilots, tugs, brokerage and stevedoring is approximately $72,000 per call. All provisions would be purchased locally, inputting hundreds of thousands of dollars into the surrounding economies. It has been estimated that one cruise ship visit can generate approximately $250,000 per call in port. The addition of cruise ships to the U.S.-flag fleet will serve new and increasing U.S. markets, generating huge benefits to local economies and the U.S. economy as a whole. It must be emphasized that any additional U.S.-flag ships will not displace current foreign-flag services, but will only add to existing and upcoming ports' revenues.

The creation of thousands of jobs and the economic stimulation of local economies, will generate millions of dollars in individual, sales, and corporate taxes. The U.S. balance of payments would be improved if additional cruise ships are flagged-U.S., thus carrying passengers who would otherwise sail under foreign-flag. In 1984 and 1985, the U.S. balance of payments deficit for ocean passenger fares totaled $305 million and $320 million, respectively. In contrast, the U.S. economy historically receives less than $500,000 a year in ocean passenger fare receipts from foreign sources because there are very few U.S.-flag cruises to attract foreign passengers or keep U.S. passenger dollars in the U.S. economy. Additional U.S.-flag ships will help overcome this imbalance. Direct and indirect positive economic impacts will result from the addition of new cruise vessels to the U.S. registry. The most important job creation and the opening of new domestic markets will produce a ripple effect throughout the whole economy. More jobs mean more tax dollars and less unemployment compensation. Additional U.S.-flag ships mean more ports of call and additional passenger and vessel expenditures. Additional U.S.-flag ships mean new domestic ports of call and a multitude of indirect impacts on the local communities and again more jobs. The market is strong and it is time to allow the U.S. merchant marine to take part.

NATIONAL SECURITY FACTORS

As the Subcommittee is aware, there are important national security reasons for expanding the U.S.-flag cruise vessel fleet. Other than the two U.S.-flag cruise vessels serving the intra-island Hawaiian trade, current U.S. troopship capacity is limited to the aging relics anchored with the National Defense Reserve Fleet. By even the most optimistic estimates, those vessels would require 90 to 120 days to reach operational status.

Some would argue that U.S.-flag troopship capability would not be required in a NATO scenario. One does not need a geography lesson, however, to note that Lebanon, the Philippines, the Persian Gulf and other potential crises areas in the developing world, are not located in the European theater of operations. If one considers the European response to the Libyian threat, the United States may not be able to rely on any NATO members' maritime assets on NATO's own southern flank. Despite previous claims to the contrary, the NATO shipping agreement has no clause for the provision of passenger/cruise vessels.

Of the approximately 130 developing nations, about one hundred are coastal states. Political and security realities often prevent the use of reliable land-based facilities in many regions of the globe. Land facilities are easily targeted by hostile forces. Land facilities cannot change course in the darkness, they cannot take evasive action or seek shelter under the protective cover of the "defense in depth", offered by U.S. warships such as the Aegis cruiser. Only ships can take those protective measures. Lone fanatics using car bombs can destroy even well protected land-based facilities, but few nations, and perhaps no terrorist organizations, have the capability to penetrate extensive U.S. naval defenses.

Where would Britain have housed its fighting forces during the Falkland Islands crisis, where no land facilities were available if not aboard passenger vessels? Where would the United States safely billet its forces in similar situations which are commonplace in the resource-rich developing world?

The highly mobile shelter offered by passenger vessels is not limited strictly to military personnel. A useful example is the recent Grenada operation. As you know, in that crisis situation, the U.S. Government called on Britain to permit a passenger ship to be used for the evacuation of U.S. citizens if it became necessary. Fortunately, the limited military opposition on the island did not require its use. We must not, however, allow that lesson to go unlearned. Next time our military forces are called upon to protect U.S. interests, they might not have at their disposal an airstrip capable of landing large transport aircraft. Medical or safety evacuation by helicopter or small craft, for military or civilian personnel, to U.S.-flag cruise vessels steaming offshore might be the only viable option, provided, of course, that our Nation has a U.S.-flag cruise fleet to call upon.

Some would argue that the United States has no need for troopship capacity. We would ask then, why the government goes to the effort and expense of maintaining troopship capacity in the National Defense Reserve Fleet? Also, the President's FY 87 budget proposal and Marad's subsequent actions terminating support for state maritime academies, has not prevented MarAd from issuing a solicitation for ships suitable for conversion to an 800 berth training ship. What other use could such a vessel have except as a troopship? Its intended use, along with a requirement established by the Joint Chief of Staff for ship capacity to carry 17,000 troops is stated in a memorandum from the Vice Chief of Naval Operations for Logistics which was sent to the Maritime Administration.

Relying on foreign-flag vessels and foreign crews has proven to be an unsound and dangerous folly even in situations far less threatening than an all-out military crisis. For example in 1983, when western powers were trying to defuse the Israel-PLO combat in Lebanon the intensity of fighting was considered detrimental to NATO interests in the region. As a result, when a cease-fire was declared, the western powers backed the evacuation of one of the warring factions in order to reduce hostitilities and the loss of life. All the warring parties agreed to peaceful passage, France power provided air cover for the evacuation and a warship escort for each Western European vessel used in the evacuation, a protective ratio unheard of in wartime. Despite record unemployment among NATO merchant seamen, the December 23, 1983 edition of The Washington Post reported:

The *regular crew, however, refused to go to Lebanon.* The ship's captain recruited substitutes. Even then he found *only 77 persons to operate a ship that normally carries a complement of 120.* The key personnel are experienced, the captain said, but less important positions were filled from the ranks of the unemployed. They are inexperienced, overtaxed and often surly.

It must be pointed out that this incident took place while a truce, as opposed to active combat, was in force. At the time, no formalized mechanism existed for foreign crews to refuse potentially dangerous duty. Recent developments in international shipping, on every level, including collective bargaining agreements, have established a requirement that shipowners must notify the crew if a vessel itinerary includes a war-like operations zone. Upon notification, foreign crewmembers would then be able to refuse service and be returned home at the shipowner's expense without penalty. Once again, we must emphasize that all U.S. maritime unions are unequivocally opposed to such a policy. American merchant seamen have a long and honorable record of sailing aboard U.S.-flag ships in the service of this nation despite the potential for danger.

The most recent example of cruise vessels called upon to support a military operation is the Falkland Islands campaign. During that engagement three British-flag cruise vessels, the *Uganda, Canberra* and *Queen Elizabeth 2 (QE2)* were rapidly called into service. Although Britain decided to replace the foreign seamen serving on those ships, once British ratings were aboard, operations went smoothly. No such problem would develop on U.S.-flag vessels which carry American citizen crews.

During the Falkland Islands Campaign, the *Uganda* was quickly converted to a one thousand-bed hospital ship carrying a 135 member hospital team plus crew. Acting as a hospital, the *Uganda* handled forty to seventy casualties a day, once seeing 159 in four hours for a total of 730, while performing 554 battle operations and serving 212,000 meals to hungry combat troops during a four-month period.

The *Canberra* served as a troopship but was also fitted with a hospital. As a hospital, she received 172 battle casualties, all of whom survived, performed 84 operations and 5,189 lab tests, made 172 x-rays and collected 1,310 pints of badly needed blood. This was performed by 208 medical personnel and stretcher bearers as opposed to a peace-time medical staff of five. She carried 3,000 troops and the civilian crew kept them from harm despite repeated aerial attacks and constant danger.

The *QE2* served as a troopship carrying 3,150 troops through an 100-iceberg hazard in dense fog to safely disembark troops and supplies on South Georgia Island and to evacuate 700 valiant British sailors whose three ships had been sunk in the chilly South Atlantic. The *QE2* provided housing for military personnel in the bitter extremes of South Georgia Island. By doing so, valuable time, not spent on building barracks to shelter troops from hostile elements, was saved and Britain had a base of operations much closer to the combat area.

SOVIET PASSENGER VESSEL FLEET

As you know, the Soviet Union has the world's largest fleet of militarily useful cruise ships. These vessels provide badly needed hard currency to finance the Soviet economy which devotes much of its resources supporting their military establishment and, more importantly, are prepared to act on a moments notice as a military auxiliary. We believe that S. 1935 would help to redress that imbalance, by providing the United States with a measure of the same capability.

According to Morpasflot, the passenger vessel arm of the Soviet merchant marine, the U.S.S.R. operates 87 vessels of 25,000 berths, carrying 3.5 million passengers annually, including 600,000 foreign passengers. The Soviet passenger fleet serves more than 100 domestic lines, 11 international lines and also operates vessels in the world cruise business. Over the next five years, the Soviet fleet has more cruise vessels on order than any other nation. Soviet newbuildings incorporate national defense features that Great Britain was forced to add to the cruise vessels used in the Falklands campaign. Those defense feature include topside fuel intakes for underway replenishment and hazard-free, strengthened decks for use as helicopter pads. Most of those vessels are being built in Polish shipyards which means the Soviets spend little or no hard currency to acquire the ships which will later be used to earn hundreds-of-millions of dollars in hard currency from western tourists. We have attached a partial list of Soviet cruise vessels for informational purpose.

Although the Soviet-bloc cruise fleet may not carry passengers from U.S. ports, it will nonetheless likely increase the number of foreign-built cruise vessels calling in the United States. As we have seen in the liner and bulk trades, Soviet rate cutting, with which no comercial operators can compete, drives large number of vessels into trades without a strong Soviet presence. In this case, existing and newbuilt Soviet cruise vessels operating in shrinking markets, in other parts of the world, will force foreign cruise vessels into the lucrative U.S. market.

In order to earn hard currency, the Soviet passenger fleet has resorted to any and every device to steal business from Western operators. Soviet crews are paid a minimum of 30 percent less than western counterparts and the Soviets strive to provide their own bunkers to their fleet in order to conserve valuable hard currency. Also, insurance which is a large cost of doing business for a Western vessel operator, is supplied to Soviet vessels by the state and is, in fact, merely a paper transaction. For example, one prominent underwriter recently estimated that a 20,000 DWT, 1,150 berth passenger vessel flying the U.S. flag would pay about $500,000 per year for insurance. The cost to a Soviet operator for the same vessel would be zero.

When Britain was utilizing much of its passenger vessel capacity in the Falkland Islands campaign, the Soviets rushed in to fill the void by slashing rates and increasing available berths and very quickly captured a much larger share of the British passenger market, while simultaneously providing direct intelligence support to Argentina during the crisis. Only direct intervention by the British Government alleviated the situation. Italian operators have also been harmed by Soviet predatory operations and Italy has required the Soviets to clear their proposed operations with Italian vessel owners, in order to insure fair treatment of Italian-flag operators.

The Soviets, however, are quick to resort to any subterfuge, no matter how transparent, to mollify Western concerns. They have, in fact, entered into joint ventures with firms in Britain, West Germany, Italy and Japan. In addition, 30 other non-Soviet companies worldwide secure bookings on Soviet passenger vessels. In 1978, press reports in this country revealed that the Department of Defense ticket service was urging U.S. military and civilian employees to take a "party cruise" aboard the Soviet passenger vessel *Odessa*.

Although that incident is somewhat dated, a more recent action by the Executive Branch is undermining attempts to rebuild the U.S. cruise vessel fleet. In our view, it is a bitter irony that the modest incentives to promote business and convention travel, aboard the few existing U.S.-flag passenger vessels, is under attack from the current Administration which prides itself in its resistance to Soviet militarism. While U.S. operators are fighting their own government to retain that minimal support, the Soviet Union is enthusiastically promoting Soviet vessels for "seminars, symposia and other business conferences."

Clearly, it is not in the interest of the United States to allow the Soviet passenger fleet to grow and prosper by hypocritically offering Western tourists a life style they cruelly deny their own people. While they enrich themselves at our expense, they are also increasing their already substantial lead in a vital category of military assets. Reflagging foreign-built cruise ships offers a partial solution to the problem and deserves the support of the broad spectrum of U.S. defense and maritime interest. For too long, too many policymakers in this country have been blind to the implications of Soviet maritime policy and blind as well, to the absence of a coherent maritime policy in the United States.

The other proposal being discussed today, S. 1929, offers a different approach to the issue. We do not believe that S. 1935 and S. 1929 are mutually exclusive. Both solutions could be pursued. The opportunities offered by S. 1929 are such that vessels constructed under that proposals might not enter service until well into the next decade. While it should not be ruled out, it should not be our sole effort to expand the U.S.-flag cruise vessel fleet.

Mr. Chairman, the SIU stands ready to assist this body in any reasonable attempt to expand the U.S. merchant marine's involvement in the growing cruise trade. We ask only that realism rather than wishful thinking guide Congressional and industry action on this issue. If realism prevails we will have a working, military-useful fleet at no cost to the taxpayer. If it does not, foreign economies will continue to profit from the expenditures of U.S. passengers and the U.S.-flag cruise vessel fleet will remain absent from most U.S. ports.

DEPARTMENT OF THE NAVY,
OFFICE OF THE CHIEF OF NAVAL OPERATIONS,
Washington, DC.

Memorandum for the Acting Deputy Administrator, Maritime Administration, U.S. Department of Transportation.

Subject: Department of Defense requirement for the transport of troops by sea.

1. The Department of the Navy has had levied upon it by the Joint Chiefs of Staff a requirement to transport by sea 17,000 troops in the event of war or other national emergency. Troop lift capability today in U.S. flag passenger ships is limited to that available through voluntary charter or requisitioning of the two passenger

ships plying the Hawaiian trade, SS *Constitution* and SS *Independence*. Their combined capacity without further modification is about 4,000 troops. Given time to modify the ships, they are capable of carrying 8,000 troops.

2. The purpose of this memorandum is to inform you that the Department of Navy supports any proposal by any operating company that would result in more U. S. flag passenger ships that could be used for troop lift. I am aware of several proposals ranging from the reflagging of foreign passenger ships to schemes to build or convert passenger ships in U.S. yards. Given the size of the requirement for troop lift compared to our current capability, it is essential that we lend our support wherever possible.

3. As a related matter, I am aware of the desire of some of the State Maritime Academies to acquire new training ships. It would be in our mutual best interest that they acquire recent generation, diesel propelled, passenger ships that could double as training ships in peacetime and as troop ships in wartime. It is especially important that these schools obtain diesel ships in order that our engineering graduates have an opportunity to learn how to operate diesel plants.

T.J. HUGHES,
Deputy Chief of Naval Operations (Logistics).

Enclosure.

SOVIET BLOC CRUISE LINERS

Name	Year built	Passenger capacity	Crew	Trading area
SOVIET FLEET				
Aivazovskiy	1976	328	145	Mediterranean Black Sea.
Adademik VM Glushkov	1984	332	98	Volga.
Aleksandr Pushkin	1965	750	450	Worldwide.
Azerbaidzhan	1975	450	160	Baltic/Mediterranean.
Baltika	1940	438	110	London.
Belorussiya	1975	450	160	Baltic/Mediterranean.
Dmitri Shostakovich	1980	410		Do.
Dmitriy Furmanov	1983	332	98	Volga.
Dnepr	1970	200	86	Danube River.
Estonia	1960	333	90	Baltic/Mediterranean.
Fedor Shalyapin	1955	800	400	Baltic/Mediterranean/Norway.
Felix Dzerjinsky	1958	333	120	Far East.
Georg Ots	1980	440	187	Black Sea.
Gruziya	1975	450	180	Europe/Mediterranean.
Ivan Franko	1964	750	250	Worldwide.
Kazakhstan	1976	600		Baltic/Europe/Mediterranean.
Konstantin Simonov	1981	250	187	Black Sea.
Latvia	1960	333	90	Baltic/Mediterranean.
Leonid Brezhnev	1976	650	200	Do.
Leonid Sobinov	1954	700	400	Baltic/Europe/Mediterranean.
Lev Tolstoy	1982	333	145	Europe/Baltic.
Litva	1960	332	97	Baltic/Europe/Mediterranean.
Maksim Gorkiy	1969	650	400	Worldwide.
Mariya Yermalova	1974	256	100	Baltic/Norway.
Mikhail Kalinin	1958	333	90	North Africa/Canary Islands.
Mikhail Lermontov [1]	1972	750	315	Baltic/Canary Islands.
Mikhail Suslov	1982	250	187	Do.
Moidavia	1970	200	86	Danube River.
Novikov Priboy	1984	332	98	Volga.
Odessa	1974	560	280	Baltic/Mediterranean.
Olga Androvskaya	1976	256	89	Far East.
Olga Sadovskaya	1977	256	80	Do.
Oltenita		140	35	Danube River.
Shota Rustaveli	1968	750	220	Mediterranean/Black Sea.
Taras Shevchenko	1966	750	260	Mediterranean.
Turkmenia	1961	333	90	Far East.
Ukrainia	1962	640	210	Baltic/Mediterranean.
Uzbekistan	1961	250	80	Black Sea.
Wolga	1970	200	86	Danube River.

SOVIET BLOC CRUISE LINERS—Continued

Name	Year built	Passenger capacity	Crew	Trading area
Total: 39 ships		16,900	6,359	
Average		433	172	
Crew/passenger ratio			1:2.65	
New buildings:				
I	1987	750		Worldwide.
II	1988	750		Do.
III		750		Do.
IV	1989	750		Do.
V	1990	750		Do.
YUGOSLAVIAN FLEET				
Ambasador	1958	206	90	Red Sea/India.
Dalmacija	1965	312	180	Baltic/Mediterranean.
Istra	1965	312	150	Do.
Total: 3 ships		830	420	
Average		276.6	140	
Crew/passenger ratio			1:2	
EAST GERMAN FLEET				
Arkona	1981	638	220	Baltic.
Crew/passenger ratio			1:2.9	
CHINESE FLEET				
Hai Da	1963	198	80	China.
Jin Jiang	1953	400	180	Far East.
Sea World	1962	733	270	(Floating Hotel.)
Yao Hua	1967	488	170	Far East.
Zhiluo Lan	1962	450	180	Hong Kong/China.
Total: 5 ships		2,269	880	
Average		454	176	
Crew/passenger ratio			1:2.6	
POLISH FLEET				
Stefan Batory	1952	550	250	Canada/Poland/West Germany.
Crew/passenger ratio			1:2.2	
Grand total: 49 ships		21,187	8,129	
Overall average		432	173	
Overall crew/passenger ratio			1:2.6	

[1] Sunk February 19, 1986 in Cook Strait, New Zealand.

Source: Cruise 86.

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS

Question. The American Ship Building Company has said that if S. 1935 is enacted it will not go ahead with its plans to construct, own, and operate the two passenger cruise vessels. That, of course, would mean:

Additional shipyard jobs won't materialize; additional sea-going jobs won't materialize; the chances for building even more vessels in U.S. yards will be effectively killed.

Moreover, according to the JMC report, only the two Cunard vessels want to take advantage of S. 1935.

In your view, do the benefits which the U.S. economy and our merchant marine would receive from admitting the two Cunard vessels into our Jones Act trades outweigh the disadvantages?

Answer. As we stated in our verbal remarks, each time that the subject of reflagging is discussed in Congress, a proposal to build a cruise vessel in U.S. yards emerges. Considering the history of similar projects which failed to materialize, we do not believe that it is unfair to be skeptical about the prospects for this proposal. The American cruise market has been expanding for some time, yet no new building projects were undertaken in response to that growth. Also, the prospect for Title XI support was much more favorable in the past then it is today. It must be remembered that U.S. yards have never built a luxury cruise vessel which differs markedly from the passenger ships last built in the United States 30 years ago.

In addition, the Shipbuilders Council of America has testified before Congress that the proposed elimination of the investment tax credit and changes in the depreciation schedule have reduced the prospects for newbuildings stating: "These changes, if enacted, will adversely effect both the operator engaged in the international market as well as in the Jones Act trade. These effects, in turn, will be felt by U.S. shipbuilders who depend upon the U.S.-flag operators for their business." Thus, uncertainty surrounding the announcement of American Shipbuilding Company (ASC) should not be blamed on reflagging measures.

Also, ASC has stated that, if they are actually built, the proposed ships would be employed in the Hawaiian trades. Addition to the current U.S.-flag fleet serving the Hawaiian trades could be limited to U.S.-built ships. Those trades could be protected from foreign-built, U.S.-flag ships which would be employed in the majority of domestic itineraries which would otherwise remain without U.S.-flag service. With U.S.-built preference written into S. 1935, the prospects for building a cruise vessel in U.S. yards would not be diminished in any way. In fact, foreign-built U.S.-flag vessels would prove the viability, or lack thereof, of coastwise markets. Should a market prove highly profitable, an American operator could build a vessel in U.S. yards for that trade knowing it will bump all foreign-built, U.S. flag competitors.

Question. Am I correct in concluding from your testimony that if the two Cunard vessels are re-flagged they would compete with the 17 foreign-flag lines operating in the United States?

Won't the higher operating costs for U.S. vessels due to wages make it impossible to be competitive with these foreign-flag vessels?

For example, I have been told that crew costs for American Hawaii Cruises are $15,000 a day greater for its U.S.-flag operation in Hawaii, than for its foreign-flag (non-U.S. crew) operation in Tahiti. And the Tahiti vessel has a larger crew (153 as opposed to 142 each on the *Constitution* and *Independence*).

And we know that 90% of the operating-differential subsidy necessary to make U.S.-flag cargo liners competitive with their foreign-flag counterparts is attributable to the wage differential.

Answer. Foreign-built, U.S.-flag cruise vessels could effectively compete with foreign-flag cruise vessels operating from U.S. Ports. U.S.-flag vessels would have several advantages, among them are:

The ability to offer one-way cruise/fly packages along both coasts and in the Alaskan trades without a foreign stop. The ability to offer extended land-based excursions such as disembarkation in one port, overnight or extended land excursions, and rejoining the vessel in a second U.S. port. Currently foreign-flag operators can only do that for passengers who originate in a distant foreign port.

U.S.-flag cruise vessels could benefit from the current tax deduction for shipboard conventions and business meetings. According to testimony offered before the Oversight Committee of the House Ways and Means Committee, by representatives of foreign-flag cruise operators, when the deduction was prohibited for foreign-flag conventions, approximately $158 million in existing and scheduled revenue was lost on Caribbean itineraries. When it was allowed, deduction/convention related business comprised 18% of foreign-flag bookings. Foreign-flag operators claim that if they were again granted the deduction, passenger revenues would grow by 18 to 20% in the Caribbean trades alone. While we vigorously oppose granting that benefit to foreign-flag operations, we recognize that much of the enormous economic potential is wasted because there is inadequate U.S.-flag cruise vessel capacity to take advantage of that market niche.

The level of U.S. shipboard wages has not hindered the operation of either the *Constitution* or *Independence*. According to our records the vessels carry unlicensed compliments (depending on passenger load) of approximately 300. We are not aware of the details of the *Liberte's* operating costs thus we cannot determine the relevance of supposed cost differences. However, operation with U.S. crews, under the U.S.-flag must appear more profitable than foreign-flag operation since the owner of the *Liberte* asked to have the vessel reflagged under S. 1461.

Comparing the operations of liner vessels is, in our view, inappropriate since cargo oriented foreign trades and cruise oriented domestic trades do not lend themselves to comparison.

Question. Your testimony refers to a memo dated August 20, 1985 from the Deputy Chief of Naval Operations to MARAD which refers to the fact that the Department of Navy has had levied upon it by the Joint Chiefs of Staff a requirement to transport by sea 17,000 troops in the event of war or other national emergency.

Just a month ago, however, the Assistant Secretary of the Navy for Shipping and Logistics testified before the House Merchant Marine Committee, and said the Navy does not want troop ships.

Today, the Assistant Secretary has informed the Subcommittee that the Navy's position was unchanged. It did not need troop ships because it now has capacity to carry at least 25,000 troops:

Constitution and *Independence*; 11 U.S. owned foreign-flag vessels operating out of U.S. ports which the U.S. can requisition (Effective U.S. Controlled Fleet); State Maritime Academy cruise vessels.

Where therefore is the overriding national security interest which would justify eroding our cabotage laws?

Answer. It is our understanding that the testimony of the Assistant Secretary of the Navy for Shipbuilding and Logistics, before the House Merchant Marine and Fisheries Committee, was limited to the context of a mariner-type Build and Charter proposal. As we stated in our verbal remarks, the Navy has repeatedly emphasized its need for militarily-useful product tankers, which will be deficient by 75 vessels in 1990. Considering this pressing requirement and limited funds available for this purpose, it should come as no surprise that the Navy would not wish to see scarce funds diverted to a lesser priority. The funds available for the build and charter program could have built two or three cruise ships or twelve badly needed militarily useful product tankers. It should be noted that testimony offered by Vintero Corporation supported the SIU's contention regarding the need for trooplift.

In addition, the cruise vessel proposals regarding build and charter funds were enormously expensive and did not prove cost effective when compared with foreign building costs and need for product tankers. We believe the Navy's position supports our views on high U.S. construction costs as preventing the expansion of the U.S.-flag cruise fleet.

It is critically important to note that Mr. Pyatt testified that vessels reflagged under S. 1935 would have national security value as replacement for older ships which will go out of service. He also commented that, S. 1935 would make an enormous contribution to the dwindling pool of skilled seagoing professionals by providing hundreds, possibly thousands of jobs aboard reflagged ships.

Mr. Pyatt's comment on the replacement value of reflagged vessels is supported by an examination of the assets you list in your question. The *Independence* was built in 1950 and is 36 years old, the *Constitution* was built in 1951 and is 35 years old. According to the list of so-called EUSC vessels provided to us by the office of the Assistant Secretary of the Navy for Shipbuilding and Logistics, the following can be determined.

Of the eleven foreign-flag vessels, two are registered in Italy and Norway, which are technically not EUSC countries. Thus, those vessels are not subject to recall under EUSC procedures.

All but four are between twenty and forty-two years old.

NAVY LIST OF FOREIGN-FLAG, U.S.-OWNED CRUISE VESSELS AVAILABLE FOR REQUISITION

Ship name	Year built	Flag
Azure Seas	1955	Panama.
Caribe I	1953	Do.
Carnivale	1956	Liberia.
Emerald Seas	1944	Do.
Festivale	1961	Panama.
Galileo	1963	Italy.[1]
Holiday	1985	Liberia.
Jubilee		Do.
Mardi Gras	1961	Panama.
Song of Norway	1970	Norway.[1]
Tropicale	1981	Liberia.

[1] Effective U.S. Control Fleet includes U.S. owned ships that are flagged Panamanian, Honduran, Liberian or Bahamian.

We are reasonably certain that all U.S. maritime unions, are opposed to the dangerous reliance on the so called U.S. Effective Controlled Fleet (EUSC). That reliance is further undermined by the current position of foreign seamen regarding their right of refusal to sail in "war like" operation zones. We have provided a detailed explanation of this development for the record. We believe that it is unlikely that all of these assets would be available and considering the decline of the U.S. merchant marine it is important to turn away U.S.-flag deep-sea assets made available at private sector expense.

Concerning the State Maritime Academy training ships, the following can be determined:

Of the three Maritime Academy vessels provided by Mr. Pyatt's Office, the *State of Maine* and the *Empire State* are 34 years old and the *Patriot State* is 22 years old.

MarAd has announced its intention to reduce support for the state maritime academies, including the training ships. Thus, the prospect of future availability of these ships for trooplift is uncertain. Even if they are available, they must be maintained at government expense. Reflagging candidates under S. 1935 would provide invaluable trooplift at private sector expense.

Question. In an effort to promote our shipyards the Subcommittee is trying to develop a 'build and charter' program to build militarily useful commercial vessels. I believe there is $850 million available for that purpose.

If there were adequate guidelines to protect any other U.S.-flag cruise vessels operating in our Jones Act trades, do you think a 'build and charter' program should include passenger cruise vessels?

Answer. We favor construction of U.S.-flag vessels with "build and charter" funds, provided that existing U.S.-flag operators are not disadvantaged. Recognizing the Navy's preference for the construction of handy-size, militarily useful product tankers with build and charter funds, as well as prohibitive U.S. construction costs associated with such a proposal, we believe that private sector reflagging initiatives offer a more effective approach.

Question. S. 1935 would permit up to 5 foreign-built vessels to be re-flagged.

As far as I am aware, over the past six years only the Cunard vessels have made a legislative or administrative effort to re-flag for Jones Act purposes. And, as you are aware, the JMC reports that it personally contacted the representative of the nine other vessels identified as being eligible to be re-flagged under S. 1935; and each said he had no interest in selling or re-flagging his vessels.

In view of this background, how realistic is it to expect any vessels but the two Cunard vessels to take advantage of S. 1935?

Answer. As you know, the original language of S. 1935 has been amended to protect existing and future operators of U.S. built vessels from competition with foreign built assets, as well as expanding the field of potential reflagging candidates. We have never seen details of the so-called JMC report but in view of the amended version of S. 1935 we believe that concerns about erosion of cabotage laws and the essence of the JMC report are no longer germane to the issue.

Senator STEVENS. Thank you.

Mr. DeFries.

Mr. DEFRIES. Thank you, Mr. Chairman and members of the committee, for providing me the opportunity to testify on the subject of S. 1935.

Mr. Chairman, I am appearing as president of District No. 1 of the Marine Engineers' Beneficial Association, representing nearly 10,000 American merchant mariners aboard U.S. flag vessels. But our position is supported as well by the Metal Trades Department of the AFL–CIO, the United Steel Workers of America, the International Organization of Masters, Mates and Pilots, the National Maritime Union, the Sailors Union of the Pacific, the International Brotherhood of Boilermarkers, Iron Shipbuilders, Blacksmith Forgers and Helpers, the Industrial Union of Marine and Shipbuilding Workers of America, the International Longshoremen's Association, the International Longshoremen's and Warehousemen's Union, the American Radio Association and the Radio Officers Union.

Mr. Chairman, we are all strongly opposed to this legislation. We believe it is bad for the American maritime industry, bad for

American steel and American shipbuilding and bad for American jobs.

First, we believe it is a special interest legislation. It obviously is the same old Cunard issue.

We believe Cunard should be buried once and for all, now, and not resurrected each year as a continuing threat to U.S. shipyards and legitimate U.S. ventures.

To the uninitiated, the qualifying provisions in the bill appear to be reasonable stipulations. Taken together, they actually would serve to exclude nearly every vessel in the world but two Cunard vessels, the *Countess* and the *Princess*.

Now, some Cunard proponents claim that nine vessels in addition to the two Cunard vessels would conform to the criteria of S. 1935. The nine vessels have been cited before. They are the *Atlantic, Europa, Fairsky, Nieuw Amsterdam, Noordam, Pegasus, Song of America, Stardancer*, and the *Tropicale*.

To be sure, these vessels do fit the criteria. But they are simply not for sale.

Some are the flagships of their respective lines, no more available for sale than Cunard's *Queen Elizabeth II*. Virtually all have cruising commitments years in advance. In order to be certain on ~~the~~ point which I am making, we checked with either the chief executive officer or a senior responsible official of each of the lines that owns these vessels. All, each and every one, said they had no plans to sell their vessels or to reflag them by setting up a U.S. corporation or transferring vessel titles to a U.S. corporation.

In sum, in the real operational world, the present owners have no intention of changing the status of these vessels. I believe this contention is reinforced by the fact that in recent years, only Cunard has expressed any serious interest in entering the Jones Act trade.

Mr. Chairman, you stole my next paragraph, so I will skip it.

The second point we want to make clear about this bill is that it will cost jobs, not create them.

To be certain, it will create jobs on the two reflagged Cunard vessels. However, it will deny a greater number of jobs that would have come about as a result of U.S.-built vessels coming into the market.

U.S.-built vessels would mean U.S. steel jobs, U.S. shipyard jobs, U.S. support jobs, and U.S. maritime jobs.

So far, all we have to show for Cunard is thousands of U.S. jobs lost. So we get a little bit irritated when we hear Cunard portrayed as some little cost-free bill or as a job creation bill. It is a job destruction bill, pure and simple.

The third point we want to make about Cunard is that it represents a serious threat to the Jones Act, a lifeline of support for our industry in a very troubled time.

I am for starting work tomorrow to find ways to use the Jones Act and any changes to make our industry grow. But I must oppose strenuously piecemeal exceptions to the act that would undermine it entirely and eventually bring down not just a few potential cruise ship operators, but nearly every U.S. flag operator afloat.

In closing, I would like to register my dismay that this divisive and destructive special interest issue should be raised at a time when our industry faces severe budgetary threats at home and a deteriorating climate for shipbuilding abroad.

It is, quite simply, the last thing our industry needs, and it will destroy the productive degree of unity our industry put together last year in support of the Maritime/Agricultural Cargo Preference compromise.

We have too many more important issues on which we all might work together—subsidy reforms, cargo preference, productivity, and enhanced defense capabilities. We need to stop the disastrous loss of ships, shipyards, and jobs that are wiping out America's future capability to keep foreign conflict far away from our shores.

We can together build a domestic cruise industry of which America can be proud, with jobs for all. We believe it can be done.

In this connection, I would praise last week's announcement by American Shipbuilding to construct two large cruise vessels for the Jones Act trade. They believe you can build cruise vessels in America, and I believe you can build cruise vessels in America. That is why we and every other union supporting our position today oppose Cunard and will continue to oppose it.

Mr. Chairman, let's build something together and not argue forever over something that tears us apart.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF C.E. DEFRIES, PRESIDENT, MARINE ENGINEERS' BENEFICIAL ASSOCIATION, DISTRICT 1

Thank you for providing me the opportunity to testify on the subject of S. 1935. I am appearing as President of District 1 of the Marine Engineers' Beneficial Association—representing nearly ten thousand American merchant mariners aboard U.S.-flag vessels. But our position is supported as well by the Metal Trades Department of the AFL-CIO, the United Steel Workers of America, the International Organization of Masters, Mates and Pilots, the National Maritime Union, the Sailors Union of the Pacific, the International Brotherhood of Boilermakers, Iron Shipbuilders, Blacksmith Forgers and Helpers, the Industrial Union of Marine and Shipbuilding Workers of America, the International Longshoremen's Association, the International Longshoremen's and Warehousemen's Union, the American Radio Association, and the Radio Officers Union.

Mr. Chairman, we all strongly oppose this legislation. We believe it is bad for the American maritime industry, bad for American steel and American shipbuilding, and bad for American jobs.

We believe it is special interest legislation, the same old Cunard issue. We believe it should be buried once and for all, now—not resurrected each year as a continuing threat to U.S. shipyards and legitimate U.S. ventures.

Mr. Chairman, I know that you are well familiar with this issue. It has been a source of controversy and division in our industry for nearly 4 years. Therefore, I will not repeat in detail every argument that has been made. I do, however, want to make several important points.

First, this bill, S. 1935, is nothing more than the Cunard bill, rejected by the Senate Commerce Committee by vote in 1983 and defeated by the Senate in conference with the House on the DOD bill in 1984. To be certain, there have been word changes, and one can call it revised, in a technical sense, but the effect of its provisions, carefully crafted, would be to limit the promising domestic passenger cruise trade to two foreign-built Cunard vessels, driving U.S.-built alternatives out of the market before they even have a chance to test its waters.

I cannot help but be fascinated by the qualifying provisions that must, in effect, be met before others could take advantage of this bill: a ship must be located; its sales particulars must be negotiated; it must be acquired with the current owner's schedule in mind; its refurbishment must be negotiated with a suitable shipyard; and, it must be available for the shipyard work to begin—all these time-consuming details must be accomplished within a year. In addition, the vessel must have more than 400 cabins, and it must have been constructed before 1984 but after 1974.

To the uninitiated, all these qualifying provisions appear to be reasonable stipulations. Taken together, they actually would serve to exclude nearly every vessel in the world but the two Cunard vessels, the *Countess* and the *Princess*. Indeed, the last stipulation, regarding vessel age, can only be explained under this scenario, since it runs counter to everything we all have worked to achieve for years—the most modern, efficient U.S. fleet possible. Not only would this exclude the very latest ships from our market, but it implies that the domestic American market deserves second best—a philosophy that will certainly serve to limit its potential.

Some of the Cunard proposal's more avid proponents have claimed that over 250 vessels around the world would meet this bill's limits. That is pure deception; there are less than 100 cruise vessels operating worldwide, and the vessels that may have been used to arrive at this 250-vessel figure include Soviet-flag car ferries and Yangtze River passenger vessels—scarcely desirable entrants into the U.S. domestic trades.

Other Cunard proponents claim that nine vessels, in addition to the two Cunard vessels, would conform to the criteria of S. 1935. This is also pure deception. The nine vessels they cite are the *Atlantic, Europa, Fairsky, Nieuw Amsterdam, Noordam, Pegasus, Song of America, Stardancer,* and the *Tropicale*. To be sure, they do fit the criteria, but they are simply not for sale. Some are the flagship of their respective lines, no more available for sale than is Cunard's QE II. Virtually all have cruising commitments years in advance. In sum, in the real operational world, the present owners have no intention of changing their status, and I believe that this contention is reinforced by the fact that in recent years only Cunard has expressed any serious interest in reflagging for the Jones Act trades.

Mr. Chairman, many a young bachelor will see a glamorous actress on the screen who conforms to the specifications they are looking for in the girl of their dreams. She is, however, as eligible for that bachelor as the cruise ships on the lists being circulated today.

So, I urge everyone to take a close look at the claimed "generic" nature of this latest Cunard proposal. I believe—indeed I know—that they will find nothing other than the proverbial wolf dressed in sheep's clothing. If we are going to allow reflagging of foreign-built vessels with full coastwise privileges, then the absolute prerequisite is to make it fair, genuinely fair, for more than one solitary entrant to the domestic trades.

The second point I want to make about this bill is that it will cost jobs, not create them. To be certain, it will create jobs on the two reflagged Cunard vessels, but in so doing it will deny a greater number of jobs that would have come about as a result of U.S.-built vessels coming into the market. I need only cite the example of the SS *United States*. This ship is scheduled to be rebuilt and refurbished in Alabama for the Jones Act trade, but this is contingent on preserving the status quo—not allowing in two already-paid-for, low-cost foreign vessels that can deliberately undercut the *United States* before it has a chance to get started. Not only does this vessel alone mean more than 1,000 permanent at-sea jobs, but there will be hundreds more jobs for shipyard workers in Alabama and supporting industries, such as steel, in many states.

I am also convinced that if Cunard were buried for good, and its possibility not kept alive as a continuing threat, other U.S.-built ventures could succeed as well. The existence of Cunard, the potential threat it poses, cannot help but have had a chilling effect on investors who would like to support cruise ship plans that would conform to the Jones Act as it is today. I am not only a union President. I am also a businessman, chairman of a large pension fund. We do not make investments in ventures where the rug could be pulled out from under them at any point. We look for stability, for some degree of certainty that the rules will not be changed in midcourse. With Cunard lurking about, I am not surprised that companies who would like to build cruise vessels in America have trouble raising the necessary capital.

Perhaps the most aggravating—indeed tragic—part of this Cunard saga is the missed opportunity. If Cunard had been laid to rest permanently in 1983 or 1984, I firmly believe that we would have today U.S.-flag, U.S.-built cruise vessels operating in the Jones Act trades—with far more, and more modern, capacity than the two Cunard vessels. These vessels would have been there, operating, ready to take advantage of the domestic tourism potential of millions of Americans staying home this year because of international events. From this we could have built a U.S.-market base interested in domestic, high-security, U.S.-flag cruising. We could have built this base among tourists who have never been a cruise, any cruise, before. We could have gotten some of those tourists off the Swissair and Air France 747's and onto U.S. ships, with U.S. crews—ships built in the United States.

These vessels would have meant U.S. steel jobs, U.S. shipyard jobs, U.S. support jobs, and U.S. maritime jobs. But what do we have today?—nothing! We have foreign-flag cruise lines moving operations out of the Mediterranean and into our ports. We have thousands of U.S. jobs lost. So I get a bit annoyed when I hear Cunard portrayed as some little cost-free bill or as a jobs-creation bill. It's a jobs destruction bill pure and simple.

The third point I want to make about this Cunard bill is that it represents a serious threat to the Jones Act—a lifeline of support for our industry in a very troubled time.

I have said it before, but I will reiterate it now: I do not think that every line in the Jones Act is chiseled forever in stone. But if changes are made to the Jones Act—particularly changes as fundamental as the one now proposed—then they should be made after a balanced, careful, and comprehensive study of the Act. More than a year ago, the Chairman publicly supported such a study, and we strongly seconded your call for such a study. Indeed, if the study had been begun then, we might now have a set of accepted fair recommendations ready to enact into law that could include cruise ship changes.

I am not proposing the usual cop-out of study-into-oblivion. If we can put something better than current law in place, I am for it. I am for starting work tomorrow to find ways to use the Jones Act and any changes to make our industry grow. But I must oppose, strenuously, piecemeal exceptions to the Act that could undermine it entirely and eventually bring down not just a few potential cruise ship operators, but nearly every U.S.-flag operator afloat.

In closing, I would like to register my dismay that this divisive and destructive special interest issue should be raised at a time when our industry faces severe budgetary threats at home and a deteriorating climate for shipping abroad. It is, quite simply, the last thing our industry needs, and it will destroy the productive degree of unity our industry put together last year in support of the maritime/agriculture cargo preference compromise.

We have too many more important issues on which we all might work together—subsidy reforms, cargo preference, productivity, enhanced defense capabilities, and stemming the disastrous losses of ships, shipyards, and jobs that are wiping out the future capability of America to keep foreign conflicts far away from our shores.

We can together build a domestic cruise industry of which America can be proud, with jobs for all. We believe it can be done, and that is why I—and every other union supporting our position today—oppose Cunard and will continue to oppose it. Let's build something together, not argue forever over something that tears us apart.

Thank you, Mr. Chairman.

Senator STEVENS. Thank you.

Mr. McKay.

Mr. McKAY. Thank you, Mr. Chairman.

Just so everybody in the room gets clear up on this, there are two top officials of MEBA in the room, and I would just like to say for the record that MEBA, national MEBA, has no membership. National MEBA has in its possession an AFL-CIO charter and three highly autonomous districts, each district having its own constitution, its own membership, its own health and welfare plans, its own pension plan and its own contracts.

The membership that I represent I have represented as president since 1956.

MEBA on most of the issues, on 90 percent of the issues, Gene DeFries and I are right on the same track. We supported cargo preference together, Coast Guard rules, all those things. But on this issue, in the same union we have different philosophies, and I intend now to put my philosophy on the table.

The first point, that this would hurt the Jones Act, would violate the Jones Act, is a lot of "hooey." When the Jones Act was introduced, there was no such thing as a cruise ship. There were passenger ships, taking people from point to point, with them getting on and getting off. A lot of things happened to the passenger ship business. There is blame to be laid at the unions' doorstep for the demise of the American passenger ships; there is much blame to be laid at the management's doorstep for that; and I must tell you, like the good Senator said, past administrations and the Government has much to be blamed for, for that happening.

But we are not talking about passenger ships anymore. We are talking about cruise ships.

The unions that Mr. DeFries read off that are opposed to this bill would be sitting in here today supporting this bill if they were going to get the jobs. Everybody knows they are not going to get the jobs.

District II has a memorandum of understanding as recognition for the officers of the Cunard vessels, as the officers of the *United States*, and one of the unions who is opposed to these bills has an American-flag ship. They own an American-flag ship. They own a foreign flag ship, too.

I say to you, Mr. Chairman, that no company in its right mind would enter into a collective bargaining agreement with that union who is going to be in opposition to them. That just does not make good sense. No one does that.

Why that union chose now to put on a management hat is because of the frustration we all feel, and I feel it with them, trying to create some jobs. If they can get that ship on the west coast to function, they will have some cruise ship jobs.

They have announced in the newspaper that if they bring the other foreign flag ship in to run, they intend to man it with American deck officers, foreign engineers, and foreign, unlicensed, crews. Also, I believe that the reason for that structure is because they intend to run that ship out of an American port, either on a 1-day cruise or a cruise to a foreign port and have gambling onboard it. That obviously is a disadvantage to any type of American ship that would try to enter into that route. If we had gambling on American-flag ships, we most probably could run every ship out of the port of Miami. But we don't have that.

The problem is jobs amongst the maritime unions. The cake has been boiled down to a cracker, and we are all trying to cut a piece of the cracker.

I tell you, Mr. Chairman, if they threw a ship up here in the middle today, Gene DeFries, and Bob Lowen and I would put on a spectacle you have never seen in your life.

That, in my opinion, is what this is all about. It is jobs.

I don't know how this is going to infringe on the Jones Act. Certainly the Jones Act needs some looking at.

We now have the *Norway* running coastwise. I have just seen a piece in the paper where a ship has figured out a way to run out of Philadelphia, the *Ocean Princess*, or something. It seems to me that the foreigners have found out a way to use our Jones Act while us Americans sit here not knowing what to do with the damn thing. All we see is it going down the hill.

Our jobs are getting fewer. We are fighting over a smaller piece of cake, and we depend upon you gentlemen, upon your support, to try to bring an industry together which looks pretty sick right now. We look pretty sick as a major maritime nation. All you have to do is go to Miami on any Friday, Saturday, and Sunday. We ought to be ashamed of ourselves.

The district that I represent supports the bill. We support a lot of the things that the other people say. We support building in American yards. But you are going to have to make some changes if you are going to build in American yards. Our present laws will not give you a luxury cruise ship that can compete against foreign-built cruise ships. They have teak decks and all kinds of gadgets built into them for the passengers. Our laws are going to prevent that. We have transferred ships in from foreign flags and the Coast Guard made us take up the nice floors, made us take the paneling off the walls.

This is ridiculous. That part, what everybody is saying, about the Jones Act has to be looked at. I am in full agreement with that.

I don't want to bore you any more. But, in closing, I think the United States, a major maritime nation, deserves to have a cruise ship industry.

Two, I think that a cruise ship industry would afford the military the opportunity to have a supply of cruise ship vessels that could be turned into troop transport in the case of emergency. I think you were right on the line when you talked about the Grenada situation. I think it is well known.

I think that Ev Pyatt will have to confirm that that took place.

I actually think it was worse than what you said, Mr. Chairman. I don't think it was that there was no ship available. I think the British turned us down. They refused to give us one of their ships.

Third, I think the Americans deserve jobs in the cruise ship industry. This legislation, or this type of legislation, in my judgment, will be a real step in the right direction.

Thank you, Mr. Chairman and gentlemen.

[The statement follows:]

STATEMENT OF RAYMOND T. MCKAY, DISTRICT 2, MARINE ENGINEERS' BENEFICIAL ASSOCIATION, AFL-CIO

My name is Raymond T. McKay and I am President of District 2, Marine Engineers' Beneficial Association—Associated Maritime Officers. Our organization represents licensed officers employed aboard privately owned and operated U.S.-flag vessels engaged in this Nation's international and domestic waterborne trades. District 2 appears before the Subcommittee today to express its strong support for S. 1935, legislation designed to expand and revitalize the domestic U.S.-flag cruise ship fleet. Also before the Subcommittee is S. 1929, legislation with objectives similar to that of S. 1935, but in our opinion too restrictive in its approach.

The potential for a revitalized U.S.-flag cruise ship fleet is clear. The U.S. cruise market, by far the largest and most lucrative in the world, totals $5 billion annually and according to industry projections is expected to grow at a rapid pace.

Our Nation's need for an expanded U.S.-flag passenger vessel capacity is equally clear. There are currently only two U.S.-flag cruise vessels active in the United States. Only two vessels which can be called upon in a war or emergency to provide essential troopship and hospital ship capability. Through legislation, such as that before the Subcommittee today, we have the opportunity to substantially expand the capacity of this national security asset at absolutely no cost to the Government.

Passenger vessels have a long and honored heritage of contributing to military efforts. The most recent example is the British experience in the Falkland Islands. In that campaign, Great Britain used three of its commercial passenger vessels to ferry thousands of troops half way around the world to the Falklands, where they subsequently acted as housing for troops and provided essential medical facilities. British leaders afterwards acknowledged that this capacity was integral to Great Britain's success. It is disheartening to note that if we were to engage in a similar conflict, we would not even have the vessel capacity utilized by the British.

In fact, this passenger vessel shortage has already been a factor in U.S. military operations. During the U.S. operation in Grenada, our government found it necessary to ask Britain to loan us a passenger vessel to evacuate U.S. citizens from the island. Fortunately, the military opposition on the island was limited and did not necessitate the vessel's use. However, for the United States it was at once both an explicit example of the need to expand our fleet and an embarrassing glimpse of one of our greatest weaknesses.

In contrast to our very limited capacity, the Soviet Union operates over 70 passenger vessels which can readily be converted to military use. Although the U.S. does maintain a sealift reserve, it is composed of several dozen aging and deteriorating vessels of World War II vintage which would take months to activate and would be of questionable military utility.

Just as importantly, passage of S. 1935 would result in substantial economic benefits. Thousands of seagoing and shoreside jobs would be created, and U.S. shipyards and their workers will be guaranteed millions of dollars of business annually. Moreover, the U.S. Treasury will benefit from millions of dollars worth of revenue generated by this increased employment and shipyard business, and billions of dollars of American tourist dollars which normally would be lost to foreign cruise ships will be recirculated within the U.S. economy.

In conclusion, Mr. Chairman, for several years we have patiently waited as proposals to build passenger vessels in U.S. shipyards have been advanced. However, as this Subcommittee knows, each and every one of these proposals has foundered and no additional vessels have joined the fleet since 1982. In the meantime, valuable time has been lost, while foreign-flag cruise lines continued to increase their presence in America's ports. It would be a shame to miss this opportunity, and a national tragedy to lose another part of our maritime heritage. I urge the Subcommittee to support S. 1935, legislation which would quickly and effectively allow potential U.S. operators to take advantage of the domestic U.S. cruise market.

Thank you.

Senator STEVENS. Thank you very much.

Gentlemen, from time to time, we hear comments about the vitality of the American labor movement and its leadership. The fact that the three of you would come and sit at the same table and express different points of view while representing your members shows that the brotherhoods and the labor movement are still strong and independent. We appreciate the fact that you do state your own positions.

It does not make it easier for us, but we appreciate the fact that you come in and make your positions clear and unambiguous.

I do not have any questions.

There are no surprises for me in your statements.

But, Mr. DeFries, I would only ask you one question. Would your union change position if we wrote into this bill the protections that seem to be implied by your comments? In other words, if there is forthcoming an American-built cruise ship to be operated in accordance with the Jones Act, and the legislation prohibited competition with that vessel or vessels by reflagged vessels, would you change your position? Would you change your position if we could assure you that if any American-built vessels were produced, their specific routes would be protected?

Mr. DEFRIES. Mr. Chairman, I think there are a couple of problems and not just one.

I think, No. 1, as long as Cunard is laying on the table, I don't think there are going to be any American ships built. I don't think the financial community is going to put up the money.

I do not have a closed mind on any issue that is good for this industry and I certainly would be willing to look at something.

If you would bear with me for just a moment, I would like to clear up one little misunderstanding, perhaps.

Jobs are an issue in this industry; there is no question about it. Everybody is looking for jobs.

We supported the reflagging of the *Liberte*. We do not have one single solitary job on that ship, Mr. Chairman.

We supported the reconstruction of the *United States*. We don't have one job on that ship.

So our motivation for opposing this is not jobs. It is what is good for this industry. We do not believe Cunard is good for this industry.

We think that a comprehensive study of the Jones Act certainly is in order. We do not think any legislation should be set in cement forever, and we are prepared to work with your committee and make whatever contribution we can to revise the Jones Act, to make this industry healthier.

We certainly are interested in jobs, but that is not our motivation and that is not our controlling factor. We look at that as a secondary thing. If there are enough jobs put on the table, like Ray says, we will all fight over them and we will get our fair share.

Senator **Stevens**. I appreciate your response and your comment. I would only say that at the time of the Grenada situation, I did look into the availability of ships for evacuation. I was informed that we had tried to get a vessel and, as Mr. McKay indicated, that we were turned down. There were no U.S. vessels available.

In the other hat I wear, and Senator Inouye is on the defense subcommittee, also, I have supported these reflaggings primarily from the point of view of defense. There is no question that those vessels would be subject to our control.

The reserve concept hinges on the availability of foreign flag operators, which did not prove viable in Grenada, as far as I know.

If there is any question about the availability of cruise vessels, I think we ought to schedule a hearing to put the Grenada incident in focus.

I sometimes think that people misunderstand the motivation for this bill. I would like to see passenger vessels under the U.S. flag, at least a minimum number, in the interest of national security.

I do not think we ought to overlook that concept.

Senator Inouye.

Senator **Inouye**. Mr. Drozak, do you have any thoughts on the American Shipbuilding Co.'s announcement?

Mr. **Drozak**. Do I have any thoughts on their recent announcement?

Senator **Inouye**. Yes.

Mr. **Drozak**. Yes. I have given it a lot of thought, Senator, since it has been announced.

I will believe it when I see it. I happen to know the people who are involved in it. As you well know, it is not the first time they have talked about it.

I have not seen a financial package put together, and I do not believe—based on the conversation I had last November on this subject—that it would be contingent upon title XI money. If I read Gramm-Rudman correctly, only $66 million in loan guarantees can be allocated in fiscal year 1986. I am not familiar with the details of the American Shipbuilding proposal but it would probably require $100 million or more of title XI money.

So I just think it is another advertisement out there, Senator. Though I wish the new construction would take place. Believe me, I do.

Senator INOUYE. Mr. McKay, do you have any thoughts on the announcement?

Mr. MCKAY. Yes, Senator.

I would like to see American Shipbuilding enter into the building of American-flag passenger ships. But I think in their statement they said that they were building them to run in the Hawaiian Islands trade. That means they intend to have the protectionism of that trade and put the two existing ships that are in the Hawaiian Island trade out of business.

For one, I do not really think they have gotten in depth into passenger ship construction and what it takes to run some passenger ships.

Second, I think if the building and charter program would have been available at this time, that shipyard has just finished its fifth T-5 program ship, and the yard will have to close pretty soon unless they get some new business.

So, you see, in their statement, they say that, first, they would like to build additional tankers; and second, they would like to build passenger ships, and they would like to build some surimi ships. The first guy who gets to that yard with some money and some cash, that is what they are going to build.

I think, as far as the passenger ship is concerned, they are taking advantage of two ships that were reflagged foreign, the very type of bill that we are now talking about. They have now found that there is viability in that kind of operation, and it isn't any mistake that they announce that they are building for the Hawaiian Island trade. That is the best protectionism that they possibly could have.

I think it is an auxiliary problem as far as this bill is concerned.

Gentlemen, I think that something has to be done. We are in favor of building in American yards. What I'm saying to you is that there has to be some kind of legislation or thought or revitalization that, one, will allow these ships to be reflagged, with the hope that they, in the runs they will enter into, will promote interest in other people to build American-flag ships.

I think you are going to have to give them some protection because one of my suggestions would be that if the flag ships did come back in and were in the trade, if anybody wanted to build an American-flag ship and signed a contract and announced what run they were going to be in, and went to the Maritime Administration, the reflagged ship should have to move over and let the American built ship in.

Now, I don't know whether or not that is financially feasible. I am not an economist on cruise ships. But that is one suggestion.

The other suggestion that I like much better is this: if you pass the bill and the ships are reflagged, that their replacements be built in American yards. You could put that in your bill, and I think that is very supportable.

I would hope that the two ships in the Hawaiian Island trade, as they get older and as they are no longer as efficient and have to move out of the Hawaiian Island trade, would be substituted for by American ships. That would be one of the big boons to come. And all the unions that Gene DeFries mentioned—the Boilermakers and all—would be happy as you can imagine. They would not be opposing this kind of thing.

So I think it is up to this committee and to the industry itself to try to develop that kind of strategy that would allow this. Right now, the only thing that is on the horizon is reflagging. We can build from there. I hope this is not too unkind, but if we could compete in Miami against the foreign flag ships, we'd love it. It's a disgrace to go down there and see what is going on, and we have no control over a ship which, before it gets to a sea buoy, has its gambling casinos open. Anybody who tells you that they can put in an American-flag ship against that kind of operation is just kidding you and himself. There is just no way that is going to happen.

We have to do something about those people. They don't pay any taxes. You don't get any revenue from the gambling—nothing. We have to make an American competitor to work against that kind of operation if we intend to replace them.

I hope that that would be the end result, that some type of legislation, some kind of industry solidarity, would come forward, that we would look to replace what is a disgrace of foreign-flag ships carrying 90 percent American passengers. Every foreign ship working out of an American port is supported 90 percent by American citizens. American citizens are left no alternative.

A study that we have done, Senator, indicated that Americans would pay more money to ride American-flag ships. There have been numerous occasions, for example, when the safety of these passengers has been in jeopardy on these foreign-flag ships. Just as recently as last week, the *Dolphin* almost turned over and the passengers coming off the ship said that the crew abandoned them, that the crew gave them wrong instructions, and that there was just chaos on that ship.

The other issue is the old people. They are a big portion of the American cruise public. They have a very difficult time on the foreign-flag passenger ships. They go down and talk to the doctor and tell him they left their Indurol home, and he doesn't know what they are talking about. He does not know what Indurol is. He has a generic name that he has to find out, and the passengers get very shook up about that.

The other side of the coin is that there have been numerous complaints by the Health Department about foreign flag ships. It seems that we do not have enough regulations to protect the 90-percent American passengers on the health side of it. If it were an American-flag ship, you know what would happen. The laws require us to produce a healthy ship and a safe and clean climate, with adequate crews. It is mandated by law.

So they have extreme advantages over us, and we must have some consensus of yourselves, the unions, and the management to take on this whole fight and put the United States, as I said in my opening remarks, into the cruise ship industry. We have sadly neglected that area. Even if the military built their own passenger ship and put it in some yard in case they needed it in a Grenada type situation, we still need a cruise ship industry.

Senator INOUYE. Mr. McKay, you referred to the Hawaiian ships as foreign built. I am certain you erred.

Mr. **McKay**. I meant they were reflagged from foreign. Excuse me. They are American built, sir. They were transferred out. A bill was passed to reflag them, and I think that established that there was a viable industry in the Hawaiian Island trade. I think American Shipbuilding did not make any mistake when they mentioned that their new construction would be for that trade.

Senator **Inouye**. Mr. DeFries, do you have any thoughts on the American Shipbuilding Co. announcement?

Mr. **DeFries**. Senator, that is not one of our contracting companies, either. It seems that we are always a little late getting there. It is Frank and Ray's company.

But, as I understand it, Mr. George Steinbrenner is a very capable businessman, and I am sure he does not just wing it every day. He does a study as to what his business projects are.

It seems to me, and the information I receive is, that he plans on buying 60 percent of Hawaii Cruise Lines and acquiring the two ships that are operating now in Hawaii, and that he also intends to build these other two passenger ships for the Hawaiian and/or maybe the Alaskan trade.

Now I just have to assume that he is a capable businessman. He knows what he is doing, and he has his plans laid. I am just not in the position of saying that he is going to or he is not. But, by reputation, it does not seem to me that he is the kind of businessman that shoots from the hip every day.

I would hope that he would build them, even if we don't get a job on them.

Mr. **McKay**. You don't know Steinbrenner like I know Steinbrenner.

Mr. **DeFries**. Well, he didn't make his money doing it, anyway.

We would certainly hope that he builds those two ships. We have no reason to disbelieve him when he says that he intends to.

Senator **Inouye**. Thank you very much.

Mr. Chairman, I have several other questions that I would like to submit.

Senator **Stevens**. Certainly.

Mr. **Drozak**. Mr. Chairman, I have one comment that I would like to make, if I may.

Senator **Stevens**. Yes, Mr. Drozak.

Mr. **Drozak**. When we were talking about the Grenada situation and the national security aspect of supplying our troops, it makes me think of the last IFT-ILO Convention held in Geneva, this past month. Some issues discussed at the meeting are relevant to the points we are making. I would like to submit part of those issues for the record for you to review on the position which they took relative to war-like zones.

The ILO position was very plain: "that they would not enter into any war-like zone and would have the right to be repatriated off those ships while those ships may be in a war-like zone." I quote that for you. We, as the American delegation, opposed that resolution, but it passed anyway.

It is just an indication to show that when we talk about effective control over flag of convenience of ships, we may be able to get the ships, but we are not going to get the crew. They made that very plain. That was not just one nation; it was every nation, including all of the NATO nations, except for the U.S. seafaring section of the delegation.

I just wanted to add that and will make those minutes available to this committee.

Thank you.

Senator **Stevens**. Senator Gorton.

Senator **Gorton**. Senator Trible was here before me.

Senator **Stevens**. Senator Trible.

Senator **Trible**. Mr. Chairman, I want to thank you for holding this hearing today.

I want to express my appreciation to Mr. DeFries, Mr. McKay, and Mr. Drozak for their testimony.

This is an issue that has been with us now for at least 3 years. There have been a number of hearings, a great deal of debate and a lot of talk.

I must say that, at first, I was opposed to the idea of reflagging. I want to build ships in American shipyards. I am concerned about our eroding industrial base, by the fact that 6we have too few shipyards, that our Nation lacks the capacity to build the ships that are essential to an island nation.

We were told in years past that American entrepreneurs were prepared to step forward and build ships in American yards, to create shipbuilding jobs. I was prepared to wait, to permit that to occur.

I am not prepared to stand and wait any longer. It is time, I think, for us to get on with the important job, increasing shipbuilding or seagoing jobs, shipyard work, and establishing a strong U.S.-flag cruise presence.

The legislation before us is not perfect. I have yet to see a perfect bill, however. I think some of the recommendations made today ought to be translated into provisions of this bill.

But I really do not think we can wait. I really do not think that we ought to expect that these promises are going to be translated into action. I hope they will. If indeed there are economic opportunities out there, then these two courses of action need not be mutually exclusive.

Indeed, I am persuaded now that the best way of forcing those great American entrepreneurs to show their hands is to press ahead with this legislation.

So, I regret that this kind of issue requires us to, in effect, pick and choose among friends. I wish we could have unity of testimony and purpose here today. But the rule, it seems, in the maritime industry is disagreement. We certainly have not been successful as a nation in crafting a viable maritime strategy.

There are no easy answers, obviously. This is a dynamic international marketplace. There are now seagoing opportunities, opportunities in a cruise industry that is expanding, and I think we ought to press ahead and try to insure that those opportunities benefit America, American taxpayers, American shipbuilders, American seagoing workers.

I believe the legislation that you have offered and the legislation that is the subject of this proceeding today offers us the best hope for realizing those worthy objectives.

Thank you, Mr. Chairman.

Senator STEVENS. Thank you.

Senator Gorton.

Senator GORTON. Mr. Chairman, I share some of the sentiments which have just been expressed by Senator Trible. I, too, am very familiar with the promises that were made about the construction of cruise vessels in the United States. I note that your next panel includes two gentlemen who have been around as long as I have, and perhaps longer than that, with such a promise. I have grown rather impatient with waiting to find someone who would build such vessels in the United States, although I want very much to preserve their right to do so if it is realistically possible.

I think that the passage of this kind of bill could cause a detrimental change in the competitive atmosphere in which passenger vessels could be built in the United States. It is clear that if there is any opportunity for such vessels to be built, it is fairly marginal, but it depends on the protection which they have at the present time.

I must say that, from the beginning, I have never understood the justification for allowing a limited number of foreign built cruise vessels to be flagged in the United States. The creation of a monopoly based on foreign built ships, which then protects those ships against competition, seems to be highly undesirable. At the very least, whatever opportunities are given should be given on an open and competitive basis.

I must say that I find Mr. Steinbrenner's proposed project to build cruise ships to be on a level somewhat higher than the promises we have received in the past. I cannot say that I am an overwhelming admirer of the way in which he runs his major league baseball business, but I do think he probably knows how to build ships, and he is without a doubt financially capable of doing so.

Mr. Chairman, by pure and curious coincidence, during this last recess, I had a neighbor on Whidbey Island come to me with a similar plan. Nichols Brothers Boatyard, which is one of a tiny handful of boatyards which is operating very close to full capacity right now in the United States, because it is nonunion, builds mostly fishing vessels, barges, and the like. Now Nichols Brothers propose, I think with some real chance of success, to build at least one and maybe as many as five cruise vessels, basically for the Alaska trade.

Now these are smaller vessels, 325 feet in length and catamaran in structure. But, I am not certain and cannot be until I receive more information, whether or not the Nichols Brothers would be in direct competition with the larger, reflagged lines.

But I have a full belief that the Nichols Brothers and the company for which they are operating can, in fact, in the present market system, construct, sell, and profitably operate these vessels. Presently, I am influenced by that belief.

I have two letters from constituents in favor of this legislation, Mr. Chairman, which I would like included in the record.

I also, from a purely anecdotal point of view, can say that in the 12 days that we were on recess, I saw two foreign flag cruise ships go right in front of my house, utilizing Seattle on the Alaska run. This summer there is a far greater utilization of that port by foreign vessels. Mr. McKay, I think, in effect was testifying to the same thing.

With the consideration that we may, in fact, be at the point at which we can build some American vessels, if we retain present protections, and with a separate concern that it is designed to create the same kind of monopoly for certain vessels that it purports to get rid of, I do have a philosophical question for you, Frank [Drozak].

I did not get here in time to hear your oral testimony, but I read through the written testimony, and it seems that you have two points. The first is that because no American flag vessels are being built, American ports are being deprived of business which they otherwise would have. These are ports like my own, in Seattle.

The second point that you seem to make is that the Jones Act is not protecting us from foreign ships in any event, because they are being allowed to enter U.S. ports, with rules being waived or not proving strong enough.

It seems to me that those two points are inconsistent with one another, Frank. If the present Jones Act prohibitions are not stopping foreign flagged vessels from using ports like Seattle, then at least our ports are not being hurt. Granted, these vessels are not carrying American crewmen. But, is the Jones Act, as it is presently being interpreted by the Government of the United States, seriously inhibiting the use of American ports by cruise ships?

Mr. DROZAK. Senator Gorton, what I mean by my testimony is this.

You have Vancouver right across from Seattle. This year, you will have 27 cruise ships running out of Vancouver, which make the Alaskan loop, because of a recent Customs waiver that allowed Alaska to be exempt from the Jones Act, providing the ships did not leave the United States. On the other hand, you have seven or eight more ships based in Mexico, which will utilize one or two American ports because of Customs rules. They will purchase nothing in the United States. They only use it for disembarking passengers to go ashore and come back. There is no repair or maintenance done. It is all done in a foreign yard.

I just picked up the June issue, which I intend to submit into the record, of the *Ocean Princess*, June through October of 1986. They outline cruises from New England and Canada, starting in Philadelphia, going to Newport, RI, to Halifax, and then to Ventura Island, to Quebec, Montreal, and back down.

Our study showed us 4 years ago, Senator, that the passenger trade was there. Yet, while we as U.S.-flag operations have not done anything about it, Customs rules, waivers have been introduced and have developed to the point that the Jones Act doesn't make any difference with the foreign operations because they have almost total flexibility. We opposed these waivers but supported some reclamation to help the Caribbean Islands, such as Puerto Rico.

What does make the difference is we are not getting any revenue, the taxpayers are not getting any revenue, your city of Seattle gets zero out of it, and they are taking it all back home.

Senator GORTON. OK. I think you have just made an excellent point.

Mr. McKay, in the answer to one of Mr. Drozak's questions, you mentioned that the foreign cruise ships do not operate under the same health standards or the same crewing standards and so on. But, coupled with your statement that what is happening is that these people are cruising Philadelphia, Newport, Boston, wherever it is, and up to Canada and back, which is presumably exactly the same itinerary an American-flag vessel would cruise——

Mr. DROZAK. That's correct.

Senator GORTON [continuing]. So aren't we just going to run into this competition at another level, Mr. McKay? Aren't they going to come toddling back in here, 1 year after this legislation is enacted, and state they don't want to have to abide by our health and crew rules, because they cannot compete with the foreign vessels that are doing so?

Mr. MCKAY. I don't think they will do it on that basis. They may come back and holler that they cannot compete, but they are going to holler because they are going to have to pay taxes on the American-flag ship while these poor foreigners do not pay any American taxes.

Senator GORTON. Something like that, yes.

Mr. MCKAY. Yes, something like that. But I don't think what you said is going to be the reason they will come to us and say "help." I think it is the tax angle. I think the gambling that that foreign ship can have the minute he gets outside the 3 mile limit against the American ship, who cannot have it, no matter how he figures out where to run, are the things.

Senator GORTON. So we might as well be prepared to have them come back here and ask to be allowed to engage in gambling and not pay any taxes, which is what I think will happen a year after we reflag them.

Mr. MCKAY. I think because we are in an unfortunate position as Americans and these have been our rules, if we want to make some changes, we had better look at the hold cards.

Yes, you may have to come back.

Senator GORTON. Thank you.

Thank you all very much.

Thank you, Mr. Chairman.

Senator STEVENS. Thank you very much, gentlemen.

We appreciate your candor and your willingness to be with us. We will be working with you when we decide to mark up the bill.

Our next panel consists of Mr. Lambert, president of Cruise America Line; Mr. Sotir, president, United States Cruises, Inc.; and Mr. Westwood-Booth, assistant to the president of Vintero Corp.

Mr. Lambert, would you please begin.

STATEMENTS OF ROBERT L. LAMBERT, SR., PRESIDENT, CRUISE AMERICA LINE, INC., ACCOMPANIED BY ROBERT F. LAMBERT, VICE PRESIDENT, PLANNING, CRUISE AMERICA LINE, INC.; GEORGE A. SOTIR, PRESIDENT, UNITED STATES CRUISES, INC.; IAN WESTWOOD-BOOTH, EXECUTIVE VICE PRESIDENT, MUSTANG MARITIME INC., AND ASSISTANT TO THE PRESIDENT OF VINTERO CORP.

Mr. LAMBERT. Good morning, Mr. Chairman.

I wish to thank you, Mr. Chairman, and the members of this committee for the opportunity to testify on S. 1929 and S. 1935, bills intended to revitalize the U.S.-flag cruise industry.

As I have stated on several previous occasions before this committee, Cruise America wholeheartedly supports the goals of injecting new life into the domestic cruise industry.

I believe both bills pending before you, particularly S. 1935, would aid substantially in achieving that objective.

Cruise America is a Florida-based corporation, founded for the purpose of owning and operating cruise ships in these United States. If legislation were enacted permitting the *Princess* and *Countess*, two foreign flag cruise ships, to operate in the protected coastwise trade, Cruise America intends to purchase these ships and operate them for this purpose.

One vessel will operate in Alaska and along the west coast, while the other vessel would operate in the Great Lakes, along the east and gulf coasts.

Cruise America supports the concept of permitting foreign flag vessels to be reflagged, regardless of whether they were or were not originally constructed in the United States.

Consistent with this view, Cruise America supports the premise and objective of S. 1929, a bill permitting U.S. documentation and coastwise trading privileges to new vessels partly constructed in the United States.

In addition, we continue our support for an expanded S. 1461, a bill allowing passenger ships built in the United States and subsequently sold foreign to return to U.S. flag with full coastwise trading privileges.

It has been 4 long years since Cruise America first began advocating that Congress act to help create a U.S.-flag cruise industry by allowing reflagged cruise vessels to enter into the coastwise trade. Congressional efforts have been constantly frustrated, however, mainly by misleading promises by opponents of legislation.

Every time a hearing, a markup or a vote was scheduled on reflagging legislation, a new proposal appeared, proclaiming that construction or reconstruction of U.S. built vessels would soon commence.

Not surprisingly, none of these projects materialized or advanced in any way.

As active consideration of reflagging legislation wanes, these projects seem to vanish. Invariably, the promotors offer the lame explanation that their lack of progress is attributable to the fact that pending legislation has had a chilling effect on their efforts to raise the necessary capital.

It is no surprise that press releases have appeared which report that such a project is in the works somewhere. You also may well hear more about the continuing saga of the SS *United States*, the SS *Santa Rosa*, and the SS *Monterey*, three ships which promotors claim they will reconstruct in the United States.

I earnestly hope they can be reconstructed, especially the "big U," for it was one of the finest ships ever built. The SS *United States*, however, has been laid up and withdrawn from service for 17 years, a full 7 years longer than the *Countess*' time in service.

Realistically, none of these plans can be expected to materialize. The costs far exceed the expected return.

The construction of large, luxury-class, deep water cruise vessels in this country remains, as it has, for many years, not financially feasible. Cruise America has pursued the financing and construction of new U.S. built cruise vessels and clearly concludes that it is not possible for a U.S. built vessel to be competitive with foreign built, foreign flag vessels operating out of U.S. ports.

If this were otherwise, we would already have witnessed the rebirth of a U.S.-flag cruise industry.

Also, recent Customs rulings have served to further frustrate would-be American entrepreneurs by permitting almost unrestricted access to our coastwise trades to foreign owned, foreign registered, and foreign crewed passenger ships. This liberalization has made possible itineraries on any of our coasts and the Great Lakes, permitting an unlimited number of calls at consecutive U.S. ports, when combined with a brief call at a nearby foreign port.

Perhaps this point is best illustrated during last month's showing of the "Today" show, which was filmed aboard the SS *Norway*, the world's largest foreign owned, flagged, and crewed ship. A brief stop at Freeport, Bahamas, made the itinerary perfectly legal, and, in effect, further solidified the foreign monopoly of the North American cruise industry.

Mr. Chairman, this subcommittee is facing the same situation as 2 years ago. Foreign flag ships continue to call at U.S. ports, picking up American vacationers, transporting them to foreign destinations, even if briefly, and returning the passengers to the United States.

The profits gained from American passengers continue to land in the pockets of foreigners, whether they be foreign operators, foreign ports, foreign shipyards, or foreign crews.

But, enough of the problem. This subcommittee understands it well. It is, of course, solutions that this committee is searching for, and I am pleased to give my thoughts on this issue.

For the time being, the answer to develop a U.S.-flag domestic cruise industry lies in allowing vessels built or rebuilt overseas to operate in the coastwise trade. In short, if S. 1935 were enacted, we would witness a long overdue presence of American owned, American crewed vessels offering cruise services in the domestic coastwise trade.

The benefits of S. 1935 would be far-reaching, for it would make the U.S. cruise industry immediately competitive with modern, foreign owned vessels currently operating out of U.S. ports.

American union seamen and longshoremen would be provided with thousands of much needed jobs. If 5 vessels took advantage of this legislation, they would employ an average of approximately 525 crew members, and thus produce more than 2,600 new jobs.

American shipyard workers will obviously gain from the conversion and repair work necessary to bring the vessels into compliance, and from routine maintenance and repairs necessary in future years.

Moreover, jobs will be created and sustained in industries serving those cruise vessels. Our ports, many of which are undergoing their own revitalization, would profit from regular visits by large U.S.

flag vessels. Vessel operations and shoreside activities will generate substantial tax dollars at the local, State, and Federal levels. At the same time, the entry of those ships will come at no cost to the Government and at no one's expense.

As this committee is aware, there is an additional dimension to this legislation. S. 1935 would aid this country's military preparedness by increasing available vessels' capability of conversion to troop transport vessels in times of war or national emergency.

Despite the acknowledged need, the Navy continues to take the position that Government funding for construction of cruise vessels for troop transport is a very low priority. Additionally, each vessel, once reflagged, would employ approximately 350 onboard personnel, including 62 licensed deck and engine ratings and 238 hotel and other entrylevel positions.

Considering replacement crews and the potential of five vessels reflagging, this could equate to a total of 1,750 billets, or a 2,600 seafaring jobs. Seven hundred fifty licensed positions could be created for experienced ratings, whose service could prove invaluable during a time of national emergency.

In addition to the operation of passenger vessels in troop ship configuration, these seafarers could be instrumental in breaking out ships in our ready reserve fleet.

Finally, let me make it clear that, contrary to popular belief, S. 1935 would not inure to the exclusive benefit of Cruise America. Mardata, a subsidiary of Lloyds, advises us that at least 12 vessels, including the *Countess* and *Princess*, would conform to the criteria of this legislation. Although we would hope and expect otherwise, there are no guarantees that the *Countess* and the *Princess* would even be among the five vessels documented and permitted by the Coast Guard to engage in the coastwise trade. However, we stand ready to compete for any of the slots available and to subsequently compete openly in actual operations.

Mr. Chairman, I thank you for your interest and your efforts in developing meaningful legislation that would lead to the creation of a U.S.-flag cruise industry. It is a matter of last resort that Congress would have to legislate into an existence a U.S.-flag cruise industry. However, it is with 30 years experience without building a passenger vessel and never building a cruise vessel that warrants such action now.

I look forward to working with you, Mr. Chairman, and with the committee in seeking the requisite legislation.

Thank you.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS

Question. Your testimony refers to a memo dated August 20, 1985 from the Deputy Chief of Naval Operations to MARAD which refers to the fact that the Department of Navy has had levied upon it by the Joint Chiefs of Staff a requirement to transport by sea 17,000 troops in the event of war or other national emergency.

Just a month ago, however, the Assistant Secretary of the Navy for Shipping and Logistics testified before the House Merchant Marine Committee, and said the Navy does not want troop ships.

The Assistant Secretary has informed the Subcommittee that the Navy's position was unchanged. It did not need troop ships because it now has capacity to carry at least 25,000 troops:

Constitution and *Independence*; 11 U.S. owned foreign-flag vessels operating out of U.S. ports which the U.S. can requisition (Effective U.S. Controlled Fleet); State Maritime Academy cruise vessels.

Where therefore is the overriding national security interest which would justify eroding our cabotage laws?

Answer. Despite the fact that the Joint Chiefs of Staff has found there is a significant need to transport a substantial number of troops, the Navy has taken the position that funding for construction of vessels for troop transport is a very low priority. Everett Pyatt, Assistant Secretary of the Navy for Shipbuilding and Logistics appeared, on behalf of the Administration, before the House Subcommittee on Merchant Marine to oppose generally commercial build and charter legislation and rejected the proposition that an expenditure under build and charter for passenger vessels/troop transports would be justified to meet the military's needs.

However, at the same hearing to which you refer, Captain Robert W. Kesteloot, Director of the Navy's Office of Strategic Sealift, accompanying Secretary Pyatt confirmed the need validated by the JCS for troop transport and he stressed that civilian passenger vessels could satisfy a significant portion of that requirement.

The fact remains that there is a substantial military need validated by the JCS for troop transport by sea. Nevertheless, the Navy has concluded that it does not warrant either DOD or commercial build and charter expenditures of appropriations. S. 1935 is distinguishable in that it meets this important military need at no cost to the government as well as helping establish a U.S.-flag cruise ship industry.

Question. Am I correct in concluding from your testimony that if the two Cunard vessels are re-flagged they would compete with the 17 foreign-flag lines operating in the United States?

Won't the higher operating costs for U.S. vessels due to wages make it impossible to be competitive with these foreign-flag vessels?

For example, I have been told that crew costs for American Hawaii Cruises are $15,000 a day greater for its U.S.-flag operation in Hawaii than for its foreign-flag (non-U.S. crew) operation in Hawaii. And the Tahiti vessel has a larger crew (153 as opposed to 142 on the *Constitution* and *Independence*).

And we know that 90% of the operating-differential subsidy necessary to make U.S.-flag cargo liners competitive with their foreign-flag counterparts is attributable to the wage differential.

Answer. You are correct in concluding that any vessel reflagged will be competing with foreign flag lines operating in the United States. In addition, U.S. flag cruise ships would compete with foreign flag vessels not based in the U.S. but servicing U.S. ports and actively promoted here.

Crew costs are indeed higher for U.S.-flag vessels which further illustrates the need to reflag existing built and modern cruise vessels in order to establish for an American trade. Moreover, the U.S. coastwise market has never been served by major deep-sea cruise ships and its potential remains speculative and risky even with modern and efficient reflagged vessels. The higher operating costs coupled with higher construction costs in the U.S. have proven for decades that such vessels would not be able to compete with foreign-built, foreign flagged vessels.

Question. S. 1935 would permit up to 5 foreign-built vessels to be re-flagged.

As far as I am aware, over the past 6 years only the Cunard vessels have made a legislative or administrative effort to re-flag for Jones Act purposes. And, as you are aware, the JMC reports that it personally contacted the representatives of the nine other vessels identified as being eligible to be re-flagged under S. 1935; and each said he had no interest in selling or re-flagging his vessels.

In view of this background, how realistic is it to expect any vessels but the two Cunard vessels to take advantage of S. 1935?

Answer. Should S. 1935 be enacted, potential operators will have a 2-year period in which to evaluate their interest in the coastwise cruise market. Cruise America is not aware of other operators' interest in this market but, it is worth noting that three vessels which meet the criteria of S. 1935 are owned and/or directly controlled by American citizens who may at their option, avail themselves of reflagging opportunities and incur no acquisition costs.

In addition, it is totally unrealistic to expect recognized foreign flag operators to respond affirmatively to an American trade union organization (JMC) questionnaire in terms of whether its vessels are for sale. No cruise operator would needlessly jeopardize its labor-relations or create uncertainty among its travel agents and wholesalers which would impact negatively its advance bookings.

Under these circumstances, it is likely that other operators such as Cruise America would, if permitted, be interested in entering the coastwise trade if any of the vessels meeting the criteria of S. 1935 could be purchased on reasonable terms. The probabilities of this materializing lie in finding the operators not the vessels and this will not be fully known until the vessels are allowed access to the coastwise trade.

Question. I realize that your agreement with Cunard Limited to buy the two vessels is confidential, and for trade reasons you do not wish to discuss its terms publicly. The Committee has, of course, respected your wishes.

Nevertheless, according to the testimony before this Subcommittee on September 29, 1983, by Mr. Ralph M. Bahna, President and Managing Director of the Cunard Limited, you made a preliminary agreement with Cunard which expired at the end of 1983.

So, I gather that the length of your agreement is not one of the terms which is confidential.

(a) Has your agreement been extended, and for how long?

The reason I ask this question is because I have heard that Cunard is seriously negotiating to sell these two vessels to another foreign operator.

Answer. Cunard Line Limited is not undergoing negotiations with any foreign operator for the sale of any of its five passenger vessels and the two subject vessels continue to be available to Cruise America.

Senator STEVENS. Thank you.

Next we will hear from Mr. Sotir, president of U.S. Cruises, Inc.

Mr. SOTIR. Mr. Chairman, members of the committee, my name is George Sotir, and I am president of U.S. Cruises, Inc.

USCI is the owner and will be the operator of the SS *United States* when we get her converted to a luxury cruise vessel to serve primarily between the west coast of the United States and the Hawaiian Islands.

I have been involved in this industry for over 35 years, and just to give you a brief background, my experience includes 20 years with the American flag operator, Matson Lines, when we operated vessels from the west coast to the Hawaiian Islands and throughout the South Pacific. I ended my tenure there as director of planning and marketing for that company.

I then was enticed to move over to a Norwegian firm, Royal Viking Line. It was an unnamed company at the time. It was a startup situation, and I spent 12 years with that firm as senior vice president of marketing and sales.

I then moved over to become president of Sun Lines, which is a company owned jointly by the Marriott Hotel Corp. and Greek interests.

It was last year, in April 1985, that Richard Hadley, who owns the *United States* asked me to join him in this venture.

Consequently, with this background and experience, I feel I am qualified to at least give you my views.

I consider S. 1935 a bad piece of legislation, and I base that on this experience.

It has an adverse effect in the financing of America's reentry into the cruise industry. In our discussions with major financial institutions and private lenders, we find them reluctant to invest in a climate of uncertainty. Dilution of the Jones Act certainly contributes to this uncertainty.

The predicate of this legislation is that U.S. shipyards cannot built passenger ships. This is contrary to actual fact.

Our investigations and discussions with various shipyards in this country found them not only competent, but also very price competitive with foreign yards. Labor unions here have been extremely cooperative and desperately want to see America back into the shipbuilding and cruise business.

The Alabama Dry Dock and Shipbuilding Co. in Mobile has negotiated favorable labor contracts to complete our project, and we, at USCI, have negotiated breakthrough contracts with the Masters Mates and Pilots, MEBA II, and the Sailor Unions of the Pacific.

Finally, let me take a moment to tell you why I agreed to become president of USCI and the *United States* cruise project.

There is a tremendous potential for a revitalized U.S. cruise industry out there. We possess numerous marketing studies and economic analyses documenting this assertion.

Cruising is a flourishing business, and Jones Act vessels, operating in the Jones Act trade, would be more than economically viable. They would be very lucrative.

In the 1960's, there were only 200,000 Americans traveling on passenger ships. In 1987, there will be in excess of 2 million, and by 1990, that figure will reach 3 million, the vast majority of which are being carried currently by foreign cruise lines.

The SS *United States*, with its unique amenities, along with its most favorable tradition and reputation, will help America make an impactful reentry into the cruise industry. I want to share in that experience.

I see an opportunity to fill a need on the part of American consumers, to introduce and operate cruises between the west coast and the Hawaiian Islands. I see an opportunity to employ 1,000 Americans in a U.S. shipyard during the 18-month conversion period, and 850 shipboard personnel once the vessel is launched, and still another 100-plus U.S. employees in shoreside positions.

What the United States needs is a strong and consistent maritime promotional policy to effectively compete with the shipbuilding industries of other leading countries. Private industry, the financial institutions, and the labor unions need encouragement, not uncertainty.

One simply cannot expect to entice the private sector by further weakening the Jones Act.

I just want to make a couple of other additional comments.

Senator Trible referred to the fact that he is still waiting to see the reentry of the United States into the cruise business. This company, USCI, has an established and agreed contract with the Alabama Dry Dock Shipbuilding Co. to build this ship here in the United States. My owner has already injected in excess of $26 million into this project. We have loan commitments from three leading banks to the tune of $125 million. What we are looking for is a commitment of title XI from MarAd for less than 50 percent of the cost of the project.

This is what is holding us up in getting the project constructed here in the United States. If it does not come shortly—and this is not by means of a threat, but merely a fact—my owner can wait just so long now because he has had this title XI application with MarAd for 10 months and we are still waiting for a favorable decision. If it does not come shortly, then we will have to move foreign and take up one of the several offers that have been made to us by at least five shipyards, which, incidentally, not only will provide favorable financing, but will even provide us with second mortgage financing.

So we are extremely flexible, but we want to build this ship here in the United States. The *United States* should be built here, and we are hoping that with a strong, consistent, and firm policy by this group, hopefully this will become a reality.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF GEORGE A. SOTIR, PRESIDENT, UNITED STATES CRUISES, INC.

Members of the Committee, my name is George Sotir and I am President of United States Cruises Incorporated. USCI is the owner and will be the operator of the SS *United States*, which is being converted to a luxury cruise vessel to serve primarily between the West Coast of the United States and Hawaii.

I have been involved in the Cruise ship industry for more than thirty (30) years. Prior to assuming the Presidency of USCI, I was the President and Chief Executive Officer of the Sun Line Cruises for two years. prior to that, I served as Senior Vice President of Royal Viking Lines for twelve years. And prior to that, I was Director of Marketing and Planning for Matson Lines. From this perspective I have observed the various forms of the so-called Cunard legislation.

As President of USCI I have been on the front lines of the effort to restore the SS *United States* to active service. I would be pleased to report in depth the status of those efforts, should the committee so desire. Very briefly, in January 1985 a contract was signed between USCI and Howaldtswerke-Deutsche Werft A.G. ("HDW"), a partially state-owned shipyard, of Hamburg, West Germany for the conversion of the SS *United States* to the cruise ship mode. In the spring of 1985, Chase Manhattan Bank, in a competition with Chemical Bank of New York, signed a commitment lefter for $75,000,000 for first mortgage financing. Earlier, Hermes, the Federal Republic of West Germany's export credit insurance agency, had assumed a second mortgage position by guaranteeing the remaining debt financing which was agreed to be fully funded by two leading West German Banks, Kreditanstalt fuer Wiederaufbau (KFW) and the Dresdner Bank. In fact, Hermes guaranteed 109% of the project cost which, adjusting for the then applicable exchange rate since the contract was articulated in Deutsch Marks, was about $200,000,000. A prominent feature of this arrangement was that all steel and hull structural work, as well as asbestos removal work, was to be performed at the Alabama Dry Dock and Ship Building Company of Mobile, Alabama (hereafter referred to as "ADDSCO"), pursuant to a subcontract with HDW. That work would have maintained the Jones Act eligibility of the SS *United States*.

For reasons that are not relevant here, HDW sought renegotiation of the contract price in the late winter of 1985 and that was done. Soon thereafter, however, the parent company of HDW decided to sell the Hamburg facility, and, believing that the large conversion contract would impede the proposed sale, withdrew from it. At that point USCI also had reason to suspect collusion among certain subcontractors and an attempt to drive up the price unjustifiably.

In the course of its negotiations with ADDSCO, USCI became convinced that ADDSCO, and most U.S. shipyards, have the requisite competence and price competitiveness to perform the entirety of the conversion work required by the SS *United States*. More significantly, USCI determined that there were very sound business reasons to have the entirety of the work performed in the United States. Those reasons include, but are not limited to, the ease of contract administration, the favorable and free publicity that would be generated, the working relationship with subcontractors that could be affected, the ability to attract post construction commencement equity investors otherwise deterred by foreign currency restrictions, foreign investment laws, foreign corrupt practice rules, and the like, and the fact that the conversion would generate at least 1000 direct U.S. shipbuilding jobs, 850 full-time on board ship staff positions, numerous shoreside jobs, more than $50 million in annual taxable revenue, and upwards of $50 million in consumer spending in the U.S. To many business persons "Made in the USA" is a viable and meaningful concept.

Accordingly, USCI began contract discussions with ADDSCO and other U.S. shipyards and entered into a firm agreement with ADDSCO. A very significant aspect of the ADDSCO agreement is that ADDSCO took an equity interest in the project of about $49 million on a preferred stock-deferred profit basis. In late July, USCI met with the Maritime Administration to ascertain whether MarAd was interested in participating in the SS *United States* projects, depite the very unfavorable publicity MarAd was receiving then and the turmoil MarAd was experiencing. MarAd indicated it was interested although it was made clear that it would require very significant private financing. A decision by Columbus Day was agreed to be a possible and desirable objective.

Pursuant to an agreed process, a draft application was submitted on August 8. In mid-September, USCI was invited to sumit its formal application. However, by Columbus Day no decision had been issued and that is the case today.

The details of the negotiations between USCI and MarAd are not relevant to this proceeding although I would be happy to inform the Committee of them from USCI's perspective should it so request. The essential delay concerns the construction risk. But there are three points about the USCI MarAd dynamic that are relevant:

The first concerns the physical status of the SS *United States*. It is in superb condition. It has been in dehumidified lay up since 1969 at Norfolk. It has been inspected thoroughly and in all respects by a vast number of experts, consultants, and various shipyards. The SS *United States* was built with the finest of materials and craftmanship and it could not be replicated today.

The second is that USCI's business and marketing plans have been reviewed exhaustively as well. Chase, Chemical, Dresdner and KFW banks each thoroughly examined the project economics and committed to lend substantial millions as a result. Hermes, the West German accounting firm Treuarbeit, Morgan Stanley, Temple Barker and Sloane, Simat, Merrill Lynch, and MarAd also have examined the project economics. Its economic viability is sound. Several large institutional private investors also have reviewed the project and have expressed willingness to invest. Significantly, the total project cost including start up costs and contingency reserves is about $250,000,000. MarAd is asked to guarantee only about $100–$110,000,000 of that, much less than half the project cost, and substantially less than the 75% of actual cost which is the normal statutory participation. This should be contrasted with the larger amount of government financing available in Europe and Asia. In fact, if MarAd were permitted statutorily to assume a second mortgage position, only about $50 millon in MarAd guaranteed debt, or approximately 20% of the project cost would be required to commence the 18 month conversion process.

The third is that the change in leadership at MarAd, the policy of the Reagan Administration to seek the end of the Title XI program and to oppose maritime assistance programs (setting it apart from nearly every major government in the world), and the unwarranted and destructive application of the Gramm-Rudman-Rollings deficit reduction legislation to the Title XI loan guarantee program has unduly hindered MarAd decision making. There appears to be no settled U.S. Government policy in this area. For businessmen and financial institutions that is the worst possible state of affairs. Central to this dilemma would seem to be the enduring issue of who controls maritime policy: the Congress or OMB? Simply by asserting its prerogatives, I believe the Congress could clarify policy and could revitalize U.S. passenger shipping.

Two final notes about the SS *United States*. In June of 1985 I stated on the record before the House Merchant Marine Subcommitee that USCI intends to build two new luxury cruise vessels in the United States. That is still its intention. The proposed vessels could be financed largely by the projected profits from the SS *United States*. As a professional in the cruise industry, it is my judgment that these two additional vessels would make financial, marketing and commercial sense, and I am committee to building them. Of course, USCI cannot build anything until the S.S. *United States* can begin to generate ticket revenues.

Secondly, there is available an attractive alternative to MarAd financing. It involves a European shipyard, foreign government second mortgage financing, and private financial institution financing of about $130,000,000. But, this approach would take away from this country at least 1000 jobs and USCI would prefer not to have this work performed outside the United States.

With direct reference to the recycled "Cunard" legislation, USCI opposes it for the following reasons:

One: It adversely affects the ability of U.S. entrepreneurs to attract financing. In USCI's experience, every financial institution questions what Congress will do to the Jones Act. MarAd continuously raises "Cunard" with us on a "what if" basis. Morgan Stanley cited the proposed legislation as a major negative investment factor. Indeed, at various times, the SS *United States* project has had private financing commitments in excess of $150,000,000. Every committed dollar would be jeopardized by this legislation.

Two: There is no question but that among cruise industry professionals this legislation is viewed as a fundamental breach of the Jones Act and its dilution into nothing.

Three: There is no question but that among cruise industry professionals Cunard Lines is perceived to be the private initiative force behind this legislation. It is believed Cunard wants to exploit U.S. tax laws, the remaining years of a weakened Jones Act, the current decline of the cruise business in the Mediterranean and over crowding in the Caribbean.

Four: There is no doubt that U.S. shipyards and U.S. shipyards unions are competitive with European shipyards and, as the SS *United States* has demonstrated, there is no doubt that the U.S. maritime unions are now competitive.

Five: As a remedy to the lack of U.S. participation in the cruise industry, the reflagging concept is very short sighted and would not be effective. It would destroy hopes of a legitimate, mostly privately financed U.S. passenger shipping revival. The Jones Act need not be breached. The watershed decision raised by the proposed legislation can be approached more thoughtfully.

This is an opportune time for the Congress to endorse a definite policy to encourage private investment in U.S. passenger shipping due to the following factors, namely:

Cruising in the Mediterranean is collapsing; cruise ship patronage is rapidly rising; and the market that can be exploited is for a resort experience, not the kind of cruising the Cunard ships offer.

USCI urges the Members of this Committee to continue their efforts in this area, and not to entrust to foreign entities the task of restoring the American passenger ship fleet.

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS

Question. In your view, is it significant that over the past 6 years no foreign-built vessels other than the two Cunard ships have sought to qualify for Jones Act privileges? In other words, why has no one else been interested?

Answer. During the last few years foreign flag operators have been enjoying high profits mainly due to low cost third world labor and favorable tax laws. So, there has not been any reason for the owners of foreign lines to seek to sell assets in the U.S. The subject Cunard ships, however, are not of a quality that is in keeping with Cunard Lines upscale image. It is known the industry that Cunard wishes to sell them. Since those vessels would probably meet the standards of the American Bureau of Shipping classification and the requirements of the U.S. Coast Guard and since they are small enough to serve U.S. coastal locations, there is a market for the Cunard ships here that probably does not exist elsewhere. In my view, it is a question of an anxious seller and uninterested buyers elsewhere.

Question. S. 1935 would permit up to 5 foreign-built vessels to be re-flagged.

As far as I am aware, over the past 6 years only the Cunard vessels have made a legislative or administrative effort to re-flag for Jones Act purposes. And, as you are aware, the JMC reports that it personally contacted the representatives of the nine other vessels identified as being eligible to be re-flagged under S. 1935; and each said he had no interest in selling or re-flagging his vessels.

In view of this background, how realistic is it to expect any vessels but the two Cunard vessels to take advantage of S. 1935?

Answer. At this point it appears only the two Cunard vessels would take advantage of S. 1935. These vessels are not of the quality which is in keeping with the upscale Cunard image. Therefore, Cunard is anxious to sell off the *Countess* and *Princess*.

The other foreign flag vessels which conceivably could take advantage of S. 1935 are integral parts of on-going successful cruise lines. The quality standards of these vessels are in keeping with the overall image of their respective owning cruise companies. But . . . if they expand their fleets by adding new construction they could take the decision to unload their "older" tonnage. They then could apply for re-flagging and sell their ship to U.S. operators who would have an unfair competitive advantage over fully built U.S. passenger ships.

Question. (a) Given the fact that a re-flagged foreign-built cruise vessel would have capital expenses that were considerably lower than those of newly built vessels in U.S. yards, wouldn't the U.S. vessels be at a substantial competitive disadvantage?

(b) Isn't that one of the protections of the Jones Act? The playing field is level, because all operators in our domestic trades must play by the same rules.

(c) If a re-flagged vessel would have a substantial competitive advantage, isn't it reasonable to assume that the likelihood of a foreign-built vessel coming into our domestic trades, would make it highly unlikely that anyone would invest substantial capital to construct a vessel in a U.S. yard to operate in competition with that re-flagged vessel?

Answer. (a) Definitely. The re-flagged foreign vessels were built several years ago in overseas yards at a dramatically lower cost than any new U.S. vessel could now be constructed in this country. Therefore, any U.S. vessel converted to meet the standards of today's cruise industry and/or constructed new could not hope to compete against these re-flagged foreign cruise vessels.

(b) Yes. The Jones Act was implemented in order to enable all operators serving domestic trade to be guided under the same rules. Re-flagging a foreign-built cruise vessel would substantially work against any current or new domestic cruise operator.

(c) Absolutely. Lending institutions do not look favorably upon loan applications from U.S. citizens desirous of entering the cruise industry to operate domestically. The possibility that re-flagged foreign cruise vessels constructed at sustantially lower costs would be competing in the same destination areas adversely impacts the lending views of banks and private investors.

It's time for America to understand the importance of a strong Maritime Industry. The Government leaders should lend support to a firm and consistent policy which would encourage American entrepreneurs to invest their money and efforts and thus provide a powerful re-entry into the lucrative passenger cruise industry. Further weakening of the Jones Act with the passage of S. 1935 merely strengthens the stronghold of foreign cruise operators.

Senator STEVENS. Mr. Westwood-Booth.

Mr. WESTWOOD-BOOTH. Mr. Chairman, let me thank the committee and yourself for inviting me to testify on this bill.

My name is Ian J. Westwood-Booth. I am the executive vice president of Mustang Maritime Inc., and assistant to the president of the Vintero Corp., owner of the SS *Santa Rosa*, both of whom I am here testifying on behalf.

Both corporations are headquartered in New York City.

The SS *Santa Rosa* will soon begin reconstruction work to convert it to a first class luxury cruise ship in full compliance with the provisions of the Jones Act of 1920 and its amendments.

This reconstruction work is expected to begin on the SS *Santa Rosa* within the next 2 months. It will be the third U.S. cruise ship flying American colors, along with the SS *Independence* and the SS *Constitution*.

To bring the SS *Santa Rosa* to this point has required considerable expenditure in time, effort and money for all the naval architecture, marine engineering, marketing studies, and putting in place the required complex funding and financial guarantees.

To demonstrate the extent of this investment, I have before me only one copy of the prepared and final engineering and naval architectural documentation—and I must inject here, Mr. Chairman, that I forgot to bring it—as it was such a late hour and at short notice that I was asked to testify that I had to write and have typed this testimony—in the process of doing so all the data I put together including all specifications and drawings necessary to implement this project were left behind.

In addition, Mustang Maritime has in place a $150 million commitment to proceed with our project. A copy of this commitment is in my possession and is available for this committee's private reading, but will not be submitted to the public record for commercial reasons.

I should also point out that we have not made this progress without the unwavering support of Capt. Robert Lowen, president of the Masters, Mates & Pilots Union. His commitment and that of his union to the preservation of the Jones Act and the revitalization of the domestic passenger ship industry have directly led to the support and success of our project.

Through all this preparatory effort, Mustang Maritime has adhered strictly to the rules that the Congress has established. Now the rules are to be changed, surrendering U.S.-flag status to foreign subsidy-constructed ships, specifically the Cunard *Countess* and *Princess* and others. Twice before, the Senate has expressed its wisdom to these foreign predators with a resounding "no."

Let us hope that the Senate continues to maintain wisdom because, I assure you, gentlemen, if you don't, a considerably greater number of foreign subsidy-constructed ships and their owners and agents are lurking behind your doors to demand the same privilege once this damaging precedence is established.

There can be no question that Senate bill 1935 will cause the immediate destruction of the intent of the Jones Act. This intent of Congress has been clear and well defined for over six decades, that the merchant marine, which includes cruise ships, along with its construction facilities, its crews, repair facilities, and supporting industries, shall be preserved.

The Jones Act was passed to prevent predatory foreign subsidized shipowners from driving American ships from their own ports. Because of our failure in recent years to conform to the original intent of this act, as it should be applied to cruise vessels as well, only two cruise ships fly the American flag while 55—yes, 55—are permanently based in U.S. ports and of foreign registry and ownership.

To make matters even worse, an additional 20 foreign-flagged ships operate out of U.S. ports on a seasonal basis. In other words, over 80 percent of the world's foreign cruise fleet is profiting on business which logically and rightfully should be American.

The Jones Act was established to preclude the likes of Cunard and other foreign ship owning interests from taking advantage of our market under our cabotage laws. Yet, they dominate the cruise ship business and enjoy the hospitality of U.S. ports, but resent any American participation in their own markets. This is clearly demonstrated through the tactics of their cartel-type international cruise ship organization, who told the American marine industry at a recent seminar in New York City that the cruise ship business is marginally profitable, suffering from over capacity; therefore, they do not advise anyone to enter this market.

Yet, all these foreign ship-owning interests are scurrying to convert ships or build new ones for the U.S. coastwise market, and the U.S. cruise market as a whole.

Through their economic clout, they have been able to pressure many of the major financial institutions here and in Europe to be uncooperative with the three remaining Jones Act vessel owners. We have now overcome the inertia of their Machiavellian tactics, but at a great cost to us personally, both physically and financially.

Underlying in these bills to accommodate Cunard and the other foreign shipowners and under consideration by this committee is the fact that these shipowners wish to sell their vessels to veiled American interests—vessels built with low-cost European funding and subsidization. Ostensibly, they will retain their 25-percent American ownership as the law permits; but in all probability will continue to hold 100 percent of the preferred ship's mortgage, or guarantees, or some other veiled advantage.

On top of this, they will retain all marketing rights to the vessels through their existing organizations, thereby controlling profits—in effect, remaining in the same position as before, but through this legislative maneuver, project the illusion of qualifying for coastwise trade under the Jones Act.

Quite frankly, gentlemen, we, the owners of the SS *Santa Rosa*, along with our colleagues, the owners of the SS *United States* and the SS *Monterey*, are annoyed being ridiculed of our belief that we can successfully convert our ships into first-class cruise vessels. We are further annoyed by the pressure applied against us to keep us out of the U.S. cruise ship market. I would like that underlined for the record.

Article I, section 8, of the Constitution gives the Congress the right to regulate commerce. This was certainly not written with the intention of suborning American interests.

Construction costs in U.S. shipyards are competitive to those in Europe. The difference is in the support European yards receive from their respective governments. The Congress should devote its energies to strengthening our merchant marine, rather than to proposals that weaken or destroy it, as Senate bill 1935 will surely do. It could exert its influence on the Reagan administration to properly administer the Maritime Administration, or it could establish new laws providing low-cost financing and construction incentives to enable us to effectively compete and thereby strengthen the U.S. maritime industry.

President Ronald Reagan stated upon taking office in 1980:

> The principles that a nation's own ships should carry its coastal trade presently embodied in the Jones Act, have been part of this country's maritime policy since the early days of this nation. I can assure you that a Reagan Administration will not support legislation that would jeopardize this longstanding policy or the jobs dependent upon it.

In less than 6 years, the Reagan administration has all but destroyed the Maritime Administration and has made a mockery of the whole maritime structure in its failure to recognize the difference between an oil rig and an ocean going ship. It has been totally irresponsible on title XI funding in support of the merchant marine and has jeopardized the very defense posture the President claims the United States must maintain to protect itself against the Soviet Union.

Instead of concentrating its efforts on the merchant marine, as it is charged to do, the Maritime Administration is directed to focus its efforts on being caretakers of the sickliest, most speculative part of the petroleum industry—that of underwriting offshore drilling rigs, of which over half were built for tax shelters for doctors and dentists.

Senator STEVENS. Maybe you could get to the end of your statement, Mr. Westwood-Booth. I have to go to a conference at noon, and I didn't know I was going to listen to your declaration for the Presidency. Would you get to the point, please?

Mr. **Westwood-Booth.** I think I am citing some examples, Mr. Chairman, as to why we have a sick industry and why we are all here.

Senator **Stevens.** I understand that. And I would be glad to get some questions in while you are all here on what you have been doing since 1979, when you got a bill passed by the Congress, signed by Mr. Carter, to bring those ships back into the U.S. trade. You have not done anything with them since.

Mr. **Westwood-Booth.** Mr. Chairman, I have only been involved in this project for 3 years. Prior to that, this ship was in litigation, between a foreign government and Vintero Corp., and six banks as intervening defendants, instigated politically from within the Venezuelan Government between the two main political parties, and was gallantly defended and won after 8½ years of litigation in the U.S. district court in New York City—this case is now cited in most law books relating to Edge Act law.

Senator **Stevens.** Please continue, Mr. Westwood-Booth.

Mr. **Westwood-Booth.** Thank you.

In effect, MarAd has become a welfare program for oil industry speculators at the expense of the U.S. merchant marine to the tune of half a billion dollars.

To compound this error of judgment, the administration has leased foreign-built and owned vessels for the Navy's pre-positioning program, throwing some conversion work to the U.S. shipyards as a sop. Now it is even considering allowing the U.S. Navy to use more foreign-built vessels under the pretext of saving money.

I am of the opinion that there should be a greater U.S. governmental support, as exists in other maritime nations, for low-cost financing and other economic incentives to strengthen the U.S. merchant marine and its supporting industries. Just how the administration's present policies support these industries needed for a viable U.S. merchant marine is puzzling.

That, gentlemen, is the keynote of the Jones Act of 1920 and as amended in 1936: protection of the merchant marine and its supporting industries. They are the very same industries critical to the defense of this country. It is time we woke up to the proper role of the highly heralded high technology industries. Computers are no more than information manipulators. They make nothing. Without these basic industries, computers are useful only for bureaucracy building, nothing more. It is time to get back to supporting the basics of commerce, industry, and defense.

To clarify the importance of the relationship of the merchant marine and defense, a copy of Vintero's paper "Perspective Lost" is attached to this statement.

The proposed bill S. 1935 is a destructive measure designed to benefit foreign interests and not to benefit those of the United States. I recommend that it be removed from consideration by this committee.

Any promise of job creation this bill ostensibly provides will be short lived since it hits at the very heart of all essential and strategic U.S. industry.

Thank you, Mr. Chairman. I am now ready for your questions.

Senator STEVENS. How many people do you employ in the United States today right now, Mr. Westwood-Booth?

Mr. WESTWOOD-BOOTH. Would you repeat that, please?

Senator STEVENS. How many seamen, how many merchant marine people do you employ right now in U.S. industry?

Mr. WESTWOOD-BOOTH. At this stage?

Senator STEVENS. Yes.

Mr. WESTWOOD-BOOTH. Two.

Senator STEVENS. I don't have any further questions. I have to go to a conference.

Senator Trible will chair the rest of the meeting.

Senator TRIBLE [presiding]. Senator Inouye.

Senator INOUYE. Mr. Westwood-Booth, you stated that the *Santa Rosa* is now planned for reconstruction work to begin in the next 2 months?

Mr. WESTWOOD-BOOTH. That is correct, Senator.

As a matter of fact, if I had not come to this hearing, we would be signing the contracts now with our banks in London, as we have the firm commitments in hand.

Senator INOUYE. Everything is in place?

Mr. WESTWOOD-BOOTH. Everything is in place. As I mentioned in my testimony, I am quite willing to show the commitments to you in private, for your assurance that we are not fooling the public.

Senator INOUYE. No outstanding contingencies?

Mr. WESTWOOD-BOOTH. No outstanding contingencies.

The only point that I would like to make—and I made some notes from previous testimony this morning—and I have not testified against S. 1929 only because we are using the very route that S. 1929 is requesting be available to new construction for reconstruction.

So we are going to be doing part of our work in this country and part of it in Europe.

We would have preferred to do the whole job in the shipyards here and imported foreign materials, prefabricated. But that is not permitted. So we are taking the least line of resistance, and that is to go to Europe to have the outfitting done, after all the Jones Act work has been done on the vessel.

Senator INOUYE. Thank you very much.

Mr. WESTWOOD-BOOTH. There is one other point, Senator.

Through testimony this morning, I have heard two divergent opinions about the need of the U.S. Navy for passenger carrying vessels in times of national emergency. I have heard the SIU telling us that it is a direct requirement, it is needed, and everybody has confirmed it. And I hear Ev Pyatt of the Navy bleating to the audience here that they don't really need it. I think that probably the SIU's statement is factual and Ev Pyatt's statement is incorrect.

I might add that the reason the British did not pull ships out of their cruise fleets and make them available to the U.S. Navy for use as troop transports to Grenada island was because they did not wish to take them out of cruise service, where they are making a very nice financial return cruising with American vacationers on board. It was not because of the U.K. unions not permitting it.

Senator INOUYE. Mr. Sotir, do you have any views on the American Shipbuilding Co. announcement?

Mr. SOTIR. Not really. I just learned about it this morning, so I really have not had an opportunity to draw up an opinion.

I also heard this morning of the possibility of their buying into the American Hawaii Cruise Co., which I understand is in some financial difficulty through some of its owners. So, conceivably, I think it would be a good move.

Certainly Mr. Steinbrenner appears to be well fixed financially and would be in a position to further broaden the American involvement in the cruise industry. So I would view it as a very favorable plus.

Senator TRIBLE. Thank you, gentlemen, for your testimony.

Mr. WESTWOOD-BOOTH. Thank you.

Senator STEVENS [presiding]. Thank you.

I would like to recognize at this time the Senator from Alabama, Senator Denton, to introduce his constituent.

STATEMENT OF HON. JEREMIAH DENTON, U.S. SENATOR FROM ALABAMA

Senator DENTON. I appreciate that, Mr. Chairman, and thank you for that deference.

It is a privilege to appear before your committee and before you personally. Today it is a particular pleasure. The man whom I have the pleasure of introducing is not only a distinguished Alabamian but a distinguished American, and a close and valued friend of mine.

His career, Mr. Chairman, has many aspects similar to your own in that he is an industrious man, an effective man, a determined man, and one who has a considerable background in aviation during World War II and after.

James L. Murray, of Mobile, AL, is chairman of Teledyne CAE, of Toledo, and chairman of Alabama Drydock and Shipbuilding Co. [ADDSCO] Industries, Inc., of Mobile, AL. It is in that latter capacity that he appears before you today.

The titles are just the tip of the iceberg about this man. He is an engineer, a test pilot, and an Air Force officer in addition to being one of the most outstanding business executives and civil stalwarts in this Nation.

After graduating from North Carolina State University in 1939, he joined the Army Air Corps in 1940, and served as a pilot until 1945. He later managed the development of the B-52 bomber through its first flight. As you know, there are close relatives of that aircraft still in service, and I have a particular fondness for that aircraft, which you, Mr. Chairman, understand.

Although he left active duty in July 1954, Jim stayed in the Air Force Reserve, from which he retired with the rank of major general, and over 5,500 flight hours as a pilot. For some of his work, he was awarded the Distinguished Service Medal for outstanding leadership.

He served as chairman of the Air Reserve Forces Policy Committee for the Secretary of the Air Force from 1971 to 1975, and it is for that that he was awarded the Distinguished Service Medal.

In the interim, after leaving active duty in 1954, Jim worked for the Garrett Corp., Republic Aviation, and Douglass Aircraft Corp. He joined Teledyne CAE, at that time Continental Aviation and Engineering Corp., where he became president in 1969 and was named chairman in 1983.

He has a reputation for pragmatism, for figuring out the way to make things work within the environment and the rules, for making changes that improve the performance of any organization with which he has become affiliated. No exception to that has been his performance as chairman of Alabama Dry Dock and Shipbuilding Co. in Mobile.

He has played a major role in turning around an operation which, before his coming, had fallen on hard times, like many other shipbuilders. Everyone in that area is extremely impressed by the innovation he has brought about, the arrangements he has made with labor, which completely corrected, along with his changes in personnel there, the adverse situation which previously had obtained.

His energy seems to be indefatigable, and the challenge left to him will require that energy. He cannot work miracles, but he is working and so, still, are the employees at ADDSCO, thanks to him.

We need those shipyards. I am optimistic, because of Jim Murray's being there. I will not run through his memberships, honors, and affiliations. I am only grateful for the one he has at Burning Tree, because occasionally he takes me out there and gives me a golf lesson.

Mr. Chairman, this is a good man and one of the best possible people who could testify before you today. I thank you for the opportunity of having me here today.

Senator STEVENS. Thank you, Senator. We are pleased to have that introduction and look forward to hearing from Mr. Murray.

Thank you very much for joining us.

Senator TRIBLE [presiding]. The final panel is invited to come forward. I call James L. Murray and Joel Abels.

Gentlemen, you are most welcome today. You have the benefit of having heard all the testimony this morning. So you are invited to submit your prepared texts, if you please, and summarize and respond to points raised.

Mr. Murray, since we have heard your very glowing introductions, why don't we begin with you.

You are most welcome.

STATEMENTS OF JAMES L. MURRAY, CHAIRMAN OF THE BOARD, ADDSCO INDUSTRIES, INC., ACCOMPANIED BY WALTER R. MEIGS, HOUSE COUNSEL; AND FRED BUSH, ON BEHALF OF JOEL M. ABELS, EDITOR AND PUBLISHER, TRAVEL TRADE PUBLICATIONS

Mr. MURRAY. Thank you very much, sir.

I hope it has been recorded in writing that I never had so many nice things said about me. I would like to have 3,000 or 4,000 copies of this hearing.

Senator TRIBLE. Mr. Murray, it is written in history as part of the record of the U.S. Senate. So you know it must be true.

Mr. MURRAY. Thank you very much.

I have Walter Meigs with me, who is our vice president, counsel, and secretary of our corporation, who is more familiar with the past history of our shipyard in the event any questions come up.

I have submitted a statement for the record and I would like to summarize that in a few remarks.

Senator TRIBLE. Your entire statement will be made a part of the record, Mr. Murray.

Mr. MURRAY. Thank you very much.

U.S. shipyards are experiencing their worst recession since the 1930's. Only those yards with substantial Navy work are profitable in these times. Owners for whom we perform work are having a rough time as well.

Accordingly, we see these pieces of legislation as an inopportune incursion into the coastwise trading, which has been traditionally reserved to domestic vessels with domestic crews in what is domestic trade.

For example, in the Mobile paper the other day, there was a statement—we have just had a primary there, so I can't remember who made it—that 20 percent of marine-related man-hours, or the level this year, 1985, compared to those same number of hours in 1969, means we have suffered in our area an 80 percent deterioration in 16 years.

If this proposed legislation is passed, it will shake the confidence and reliance which owners have placed on the Jones Act trade being protected. Simply because this is entitled passenger legislation and is directed toward passenger ships, it is not much solace to an owner who is viewing this incursion in light of the events of the last few years, which have included allowing U.S. liner vessels to be constructed in foreign countries and considered other weakenings of the Jones Act.

This legislation, if adopted, will destroy their confidence in the Jones Act.

We have been engaged with the owner of the vessel, SS *United States*, for quite some time now, and had reached an agreement with him in September 1985, to refurbish that vessel. I would like to make the point that we are more than competitive with foreign shipyards that were considered for this refurbishing job, should it come about.

This contract was subject to several contingencies, including no laws opening up the Jones Act trade protected for domestic passenger vessels being adopted by either House of Congress. Obviously, a business decision, investing as much money as an owner would invest to begin the operation of a passenger cruise ship, is one that would be severely shaken by either House of Congress passing legislation which would, if ultimately successful, undermine the basic premises of his investment.

We are confident of this job. We are so confident that we have offered to forgo any return until the ship is in successful operation. That amounts roughly to $50 million that we are betting on the result, that the ship will be a success.

Our shipyard and shipyards in general can ill-afford to lose additional work at this time. Our contract on the SS *United States* will provide 1,000 direct jobs in Mobile, to shipyard workers. This does not take into account the number of jobs that will be created by other subcontractors, which has been stated before this committee earlier.

Employment in U.S. shipyards has declined drastically within the past few years, and a great number of shipyards have closed.

The weakness of our marketplaces has not made even the strongest shipyards immune to failure.

I would like to make a comment related to the quality of work. We just recently completed a major job on a Navy ship, the U.S.S. *Butte*. The Navy told us it was the best LOE they ever had. LOE means light off examination which is kind of like a preflight on an airplane.

I am making the point that the U.S. industry and our shipyard, as well as others, can be competitive, very competitive, and do first class quality work.

Some people have suggested that U.S. yards cannot construct passenger cruise vessels, nor could they do substantial refurbishment work. Our bid on the SS *United States* includes only one foreign subcontractor of note. Essentially, all the materials and expertise needed to do this work exist in the United States.

I would like to conclude by saying that the basic reason American owners are considering building or reflagging passenger vessels is that consumer demand has reached a level that such investments appear feasible. Reflagging vessels will not create any market. The marketplace demand comes from the consumer.

We have an American shipyard that is ready, willing, and anxious to work on passenger cruise vessels, not only the SS *United States*, but others. We know there are other American yards that can do so also.

We urge you to reject this proposed legislation as precipitous, inopportune, and not in the long-range interests of the United States.

Thank you very much.

I would be glad to answer any questions you might have.

[The statement follows:]

Statement of James L. Murray, Chairman of the Board, ADDSCO Industries, Inc., Mobile, AL

ADDSCO Industries, Inc., located in Mobile, Alabama, operates shipyards and complementary enterprises in the Port of Mobile. I have attached to this testimony a short history of our company and description of facilities which has operated without reorganization since it was created in 1916 by the merger of two predecessor companies whose longevity stretches back into the 19th Century. We are, today, one of the few remaining independent shipyards in the United States. We are owned in majority by Mobilians and always have been.

Our Company while not so large as the giants of the industry such as Newport News, Ingalls, Bethlehem, and Todd, has nevertheless performed a number of notable contracts to build and repair vessels and watercraft of all types. In fact as recently as 1983 we were still building semi-submersible mobile offshore drilling units at a time when no other U.S. yard chose to compete in that world market.

We feel that our ability to survive today is attributable to personnel who are resourceful and innovative and who have the backing of a management which is willing to adapt and meet demands in the market place as they present themselves. When you review our attached history, it will prove our record of adaptiveness through the number of prototype jobs which we have performed.

We now turn to the issue for this testimony today. Most of my remarks are directed towards S. 1935.

We oppose S. 1935 as a needless and precipitous incursion into the cabotage or coastwise-trading which has been protected by the Jones Act for a number of years. This legislation as drafted would allow up to five passenger vessels under foreign ownership, registry, and flag on the date of enactment to be permanently documented as vessels of the United States. This legislation, if passed, will be detrimental to U.S. shipyards, our shipyard, the integrity of the Jones Act, and the general interests of the United States.

The legislation will be detrimental to U.S. shipyards because it will take away the opportunity build and/or refurbish passenger vessels in U.S. shipyards. Obviously if five ships in operating condition are introduced into the Jones Act trade then opportunities to build and/or place into operating condition domestic vessels are being purposefully foregone. U.S. shipyards are in a precarious situation at present. Those few which have remained profitable in the recent past have done so basically with either a heavy dependence on or substantial compliment of work contracted with the U.S. Navy. We feel that in the longer run the shipyard base in this country needs to be based on as much commercial work as is possible to accompany work contracted with the U.S. Navy. If a national emergency which requires sealift capabilities presents itself, then certainly the Navy would be better served if it could call upon a numerous and geographically dispersed shipyard base rather than one or two yards on either coast. This bill if passed will have the effect of removing an amount of work from U.S. shipyards when those same U.S. shipyards are experiencing the worst market conditions which they've faced since the 1930's (when much of the currently effective legislation affecting maritime laws was enacted).

A connected point is that U.S. suppliers of those same shipyards will be deprived of the opportunity to sell materials, supplies, and equipment for ships that will not be built in the United States if this bill is passed. Jobs will be lost not only in the U.S. shipyards but in the sundry operations of all those persons who manufacture, transport, and vend to U.S. shipyards the various and sundry purchases necessary to perform such contracts.

Before passing I should point out that it is proposed that up to five (5) foreign vessels may be reflagged under S. 1935. We think that when measuring the potential economic effects to U.S. shipyards one must assume that five (5) ships may be reflagged, and if so work on not two, as generally assumed, but 5 U.S. flag vessels will be foregone for U.S. shipyards by this proposed legislation.

Next, we feel that S. 1935 will have a direct and adverse impact on our shipyard as well as an indirect impact. In late Sepember, 1985, our principal subsidiary, Alabama Dry Dock and Shipbuilding Corporation signed a contract with United States Cruises, Inc., to refurbish the U.S. flag vessel, the SS *United States*, into a passenger cruise ship. The contract's effectiveness is subject to certain contingencies including the owner obtaining acceptable financing. The owner currently has on file an application with the U.S. Maritime Administration for loan guarantees under Title XI of the Merchant Marine Act. However, another contingency to which our construction contract is subject is that no bill having the effect of S. 1935 be passed by Congress or by either house of Congress. Accordingly, passage of this bill will adversely affect our Company. The owner's aversion to action contemplated by S. 1935 in its present form is that allowing low cost competition into the Jones Act trade will preempt his entry into the market and place him in a competitive disadvantage because of the low capital costs of certain foreign flag vessels which are generally considered very likely candidates for reflagging in S. 1935 or comparable legislation is enacted. The loss of this contract to our shipyard could not come at a more inappropriate time in our history. Being situated as we are on the Gulf Coast we are not in the running for much U.S. Navy repair work because of the Navy's so-called "Home Port Rule," and we're further hampered on jobs not restricted to the homeport by substantial port differentials. Consequently, over the years our Company's basic market has been the Jones Act carriers and the offshore exploration companies. We have, nevertheless, performed a number of significant (to us) contracts with the U.S. Navy, and we note that certain work for the Navy was novel in respect to concept. Given our traditional commercial orientation which has been dictated by geographically based factors we can ill afford to lose any commercial opportunities. Beyond that each foreign-flag ship which becomes a vessel of the United States will remove another opportunity from U.S. shipyard's market place—a market place which already has too few opportunities for shipyards. Even though our yard might not perform any such contracts our competitors would thereby create American jobs in American shipyards and thereby help to preserve the already badly eroded shipyard base.

In opposing this legislation we are asking Congress to give shipyards aid in a way which does not cost the taxpayer any money and which will produce and/or preserve American shipyard jobs. In our own instance our contract to refurbish the SS *United States* would create 1,000 jobs at our shipyard for 2 years. This number does not take into account the numerous jobs which would be created for subcontractors and vendors both of which are substantial in this job.

A digression is due at this point about the ability of a U.S. shipyard to perform a contract to refurbish or repair a passenger vessel. When we became aware of the possibility of performing this contract we were skeptical of the availability of certain materials and expertise in the U.S. However, our final price to the Owner includes only one major foreign subcontractor—a planned subcontract to furnish joiner bulkheads in the passenger state rooms. Even joiner bulkheads could have been procured in the U.S., but because of the Owner's preference we agreed to use the foreign items.

As for the compexity of the job we found that the work is straight forward shipyard work in the main. Compared to the complexity of the work to construct an offshore drilling rig or similar structure, the work to refurbish the *United States* would have to be classified as simple. Further, to this point our shipyard has worked on passenger cruise ships with much of the same workforce that's currently running our shipyard. So the suggestion that passenger cruise ship work cannot be performed in American shipyards does not prove to be a valid one.

Next we feel this legislation will destroy the integrity of the Jones Act for the foreseeable future, and thereby further damage the shipbuilding and ship repair market demand until sufficient time elapses so that owners will again rely on Jones Act now being amended. However, what will be sufficient time is not predictable. Many of our customers have stated substantial misgivings about their ability to rely that incursions in the Jones Act might not occur for other type vessels in the coastwise trade. This state of uncertainty will put a further damper on investment in new ships as long as owners feel that foreign vessels might be reflagged to become their new competition. Not only will shipbuilding in that market be harmed, but so will major repairs substantially refurbishing currently in service vessels which will lengthen their lines. For years owners have relied on the integrity of the Jones Act, and any incursion would have serious effects on any Owner contemplating an investment as significant as a vessel.

It is an appropriate observation in the consideration of this legislation that essentially all countries protect the cabotage or coastwise trading for their domestically constructed and owned vessels to be operated by domestic crews. Other nations see what was seen in the enactment of the Jones Act—that is to develop domestic ships, shipyards, and ships' crews in the event of a national emergency.

In addition to the SS *United States*, we have pursued other projects to construct new passenger cruise vessels within the past few years. It would seem that the demand for cruise ship spaces is resulting in the probability of developing a domestic passenger cruise vessel fleet. However, demand is what creates this fleet not reflagging legislation. Put another way if there was no demand for a U.S. flag passenger vessel then neither would this legislation be pushed nor would plans be made to put the U.S. passenger vessels into service. The idea that reflagging can create a U.S. passenger cruise ship fleet without demand is as fallacious as the idea following World War I that reparations payments by the losers could somehow restore the European economy.

Again, we feel that the general interests of the United States will not be served by passage of this legislation. Our reasons for this opinion are based on all the various and sundry interests which we have mentioned in this testimony that will be adversely affected if this legislation is passed.

I turn now to S. 1929. As we read this legislation to assume that passenger cruise vessels will be built in the U.S. if the structural members and propulsion and auxiliary machinery systems are fabricated and installed in the United States. An implicit assumption in this legislation is that the finished portions of such vessels cannot be produced in the United States. This is as we have found not the case. There may be incremental savings in certain materials, but there is certainly no reason to encourage needless blanket foreign contracting. We do not feel that the incremental savings will be a make or break factor in an Owner's decision to build or not to build a passenger vessel. As we stated before the basic need to generate domestic passenger vessels is market demand. We oppose S. 1929 for the same reasons as set forth above.

Thank you for the opportunity to present our views on this far reaching legislation.

Senator TRIBLE. Thank you very much.

Mr. Bush.

Mr. BUSH. Thank you, Senator.

Mr. Chairman, members of the subcommittee, my name is Fred Bush. I come to you today at the request of Joel Abels, who, unfortunately, at the last minute was not able to be here. He has asked me to read his testimony for him, a statement in support of S. 1935, to allow up to five vessels, currently sailing under foreign flag and registry, to be documented permanently as vessels of the United States for the purpose of engaging in coastwise trade, subject to compliance with all laws in effect applicable to vessels engaged in such trade.

His testimony is the following:

Dear Senator Stevens and members of the committee, as editor and publisher of the oldest travel trade publication serving the U.S. travel industry, I hope that I may be able to offer you and the members of your committee a somewhat unique perspective on the issue of reflagging a limited number of foreign flag vessels so as to revitalize our great Nation's coastwise cruise trade.

When "Travel Trade" was founded in January 1929, just 9 years after enactment of the Jones Act, which today serves as the legislative bible of American merchant marine policy, American built, owned and operated vessels were busily plying our country's coastal waterways. They sailed trans-Atlantic almost daily. Ships sailing filled more pages of "Travel Trade" initial issues than did the schedule of the then-fledgling airline industry.

And when 5,000 fellow infantry replacements headed across the North Atlantic during World War II to join the Battle of the Bulge, we were carried on an American built ship of great reknown, the SS *Manhattan*, later renamed the *Wakefield*.

When World War II ended in Europe and 5,000 of us were sent from Marseilles to Manila, nonstop, through the Panama Canal, on route for the anticipated invasion of Japan, we were carried aboard the U.S. built and operated *General Pope*.

Those were the days when the U.S. shipbuilding and merchant marine industries were at their peak, and when American preeminence on the seas was virtually unchallenged.

At the ripe old ages of 18 and 19, an awful lot of GI Joes learned how important a viable U.S. merchant marine was to our Nation's defense and to the safety of the U.S. troops which it carried.

During my early civilian career, first as an industrial engineer working in the decaying anthracite region of Pennsylvania, and later as a trade unionist active within New York City's Central Labor Council, I witnessed first hand the results of intransigent management and virulent trade unionism. I learned that when management fails to reinvest its earnings to attain higher efficiency and productivity, and when unions resort to featherbedding and jurisdictional disputes to preserve job security, there are no winners.

As was the case of both the U.S. shipbuilding and merchant marine industries, there have been losers galore, on both the management and the union side of the ledger. The biggest losers of all have been the Government and the people of the United States.

I believe that it is as simple as ABC to perceive that, if it were not for the ongoing conflict of intraunion jurisdictional relationships and the impact this has had on a number of concerned Members of Congress, there would be no reason for questioning the value of reflagging up to five foreign-flag vessels and instantly recreating a U.S. merchant marine.

Surely it is as American as apple pie to want to see the United States possess a viable merchant marine for potential defense purposes, and it is equally as all-American to want to create more jobs for American merchant seamen, for American dockyards and for cruise related industries and suppliers all along our nation's thousands of miles of coastal waterways.

But, until the day comes when the U.S. shipbuilding industry can again compete economically with foreign shipyards, let us not continue to debate within the halls of trade unionism and the Halls of Congress whether or not to allow foreign built vessels to ply American waters under a U.S. flag and management.

We have already waited some 30 years to build a new American cruise ship. How much longer must we wait before deciding how to respond to the issue? How many able-bodied U.S. seamen must continue to be unemployed because the unions to which some of them belong would rather not have any ships unless they have guaranteed manning rights to them? How much longer must the Government and the people of the United States be prevented by both union and congressional wrangling from having a viable U.S. merchant marine?

I believe that it is time for concerned unions to stop debating who will get the jobs and to start working together to encourage as many maritime job opportunities as possible. If the reflagging of up to five present foreign flagged vessels were to create at least 5,000 new job opportunities, every concerned maritime union would end up winning more jobs for its members. It is time to get the ships and then determine how many men and women from which union could do the best job of staffing them.

I urge every Member of Congress in much the same manner as I encourage the trade union leaders who are involved, to overlook the jurisdictional infighting and take a hard look at the overall picture. The United States and its citizens need, want, and are entitled to have a first class cruise industry serving its coastal ports and waterways.

The Jones Act, great as it may be, is not inviolate. It has been amended previously to permit the sailing of the *Constitution* and the *Independence* between the American mainland and four Hawaiian islands. It was further amended to permit foreign flag vessels to sail between the United States mainland and Puerto Rico. The time is right now, to amend it once again, and allow the reflagging of up to five foreign flag vessels for the purpose of engaging in coastwise trade.

I predict a great American coastal cruise industry, offering more jobs for all concerned maritime union members' interests, millions in additional tax revenues for U.S. port cities along all our coasts, and the pleasures of the cruise experience for millions of vacation bound Americans will result from your passage of S. 1935.

That concludes Mr. Abels' prepared statement, and I would like to add, as he has requested, that he would be happy to answer any questions you might have in writing.

Thank you, Mr. Chairman.

Senator TRIBLE. Thank you, Mr. Bush.

Senator Inouye.

Senator INOUYE. Mr. Murray, what is the present status of your arrangement with the United States Cruises Inc.?

Mr. MURRAY. We have a contract with them. It has expired. We have a verbal understanding that the project can go ahead. We have an understanding that we will just change a couple of dates in the contract.

In essence, we have a contract, and it expired at the end of March. But we are operating as though the contract is still valid, and we intend to revalidated it at such time is necessary.

Senator INOUYE. Are there any contingencies in this arrangement?

Mr. MURRAY. Yes, sir. I gave the ones a while ago that existed: no laws opening up the Jones Act trade will be adopted by either House of Congress; or it is dependent on the owner, Mr. Hadley, arranging suitable financing, and we are in the process of a continuing dialogue with MarAd under title XI. Mr. Hadley has not received a MarAd position. We are hoping, maybe, of all things, to get it today. We do not know where we are in the financing.

If he cannot arrange suitable financing in this country, he is going to go foreign, which I think will be a disaster.

Senator INOUYE. He will go foreign and refurbish foreign, too?

Mr. MURRAY. Yes, sir. He will have to.

Of course, we don't want to see that happen.

I think we are competitive. I know that I have not seen the competitive bids he received from foreign countries, from Germany, for one. But he tells me that we are more than competitive. I wish I knew by how much.

Senator INOUYE. Would you be competitive in building a cruise ship?

Mr. MURRAY. Yes, sir. I think we would.

Senator INOUYE: As competitive as you are in reconstruction?

Mr. MURRAY. Yes, sir.

Senator INOUYE. You are competitive in reconstruction. Are you also competitive in constructing a cruise ship?

Mr. MURRAY. Yes, sir.

Let me answer you in this way.

We have a new construction arm of our company, which is nonunion, which has no bearing on the answer, really. We did, not too long ago, bid to build four vessels for the Army. We were $17 million below the winner. We protested the bid at the award of the contract, and the Under Secretary of the Army reversed the decision. Now they are going to compete it again. That tells me that we are competitive.

That does not have to do with foreign, of course. But these were all domestic bidders. But my answer is that we are competitive.

Senator INOUYE. Thank you very much.

I would like to submit additional questions later for the record.

Senator TRIBLE. Fine.

Thank you, Senator.

Mr. Murray, can the Army build ships in South Korea?

Mr. MURRAY. I honestly don't know.

Senator TRIBLE. Isn't it so that under the laws of this land, military ships, naval ships, have to be built in U.S. shipyards?

Mr. MURRAY. Yes. I believe it is.

Senator TRIBLE. So, in that competition about which you spoke, your shipyard was competing with other American shipyards.

Mr. MURRAY. That's correct, yes, sir.

Senator TRIBLE. Can your shipyard build a cruise ship?

Mr. MURRAY. Yes, sir.

Senator TRIBLE. Can your shipyard build a cruise ship and meet the price of a shipyard in South Korea or Taiwan?

Mr. MURRAY. Let me answer you in this way. We have two main divisions, maintenance and repair and new construction. I would like to add that we have no problems with the union. We have a 3-year contract. We averted a strike for the first time since the early 1970's. So I am not making the point of antiunion versus union.

In our nonunion new construction arm, which currently has no work, except some particle precipitators for a company in Moscow, OH, yes, the answer is yes. I would be confident that we can be competitive.

Whether we can beat Korea, I don't know. I certainly would like to have the chance to try.

Senator TRIBLE. Do you have shipbuilders on the job?

Mr. MURRAY. Yes, sir.

Senator TRIBLE. In your nonunion area?

Mr. MURRAY. Yes. We are down to a fairly low level of employment.

Senator TRIBLE. Would it be necessary for you to build that work force in order to build a cruise ship.

Mr. MURRAY. To build it up? Yes, sir. The whole gulf coast, as a matter of fact, is really in a deplorable economic state because of the lack of oil drilling activities. There are 8,000 or 10,000 people up and down the central gulf coast that are unemployed experienced shipyard workers. I would think there would be no difficulty in acquiring trained and experienced work crews.

Senator TRIBLE. My experience with the naval shipbuilding program is that it is very costly, very expensive, to rebuild a work force, and, inevitably, that would influence the final cost of a newly constructed ship.

Mr. MURRAY. Yes. There is no question about it. There is a certain amount of startup costs.

Senator TRIBLE. Which ships are your shipyard now building?

Mr. MURRAY. We are not building any new ships. It is all maintenance and repair.

We have just done a job on the U.S.S. *Butte*. We have just completed one on a Navy ship, the U.S.S. *Saturn*, which is a supply ship, which, incidentally, was a British ship before the Navy acquired it, I think.

We have the carrier *Lexington* coming in now on the 13th. The carrier is the one Bob Hope had a special on for the 75th anniversary of naval aviation about 2 weeks ago. It will be in there for 67 days. We have a 5-year contract to perform phased maintenance on it.

Senator TRIBLE. So you are doing work for the Navy, then?

Mr. MURRAY. Yes. We will have 1,000 people working on the *Lexington* at the peak of the job.

Senator TRIBLE. Are you doing commercial work as well at this point?

Mr. MURRAY. Yes, all we can get.

Senator TRIBLE. But there are not many commercial shipbuilding or ship repair opportunities.

Mr. MURRAY. No, sir. We have nine oil drilling rigs stored there. We are storing four ships—Delta steamships—that belonged to U.S. Lines. They will be stored there. These are big ships, like 900 feet. They will be stored there as part of the Naval Reserve fleet. They have to be capable of being put into service within 5 days. There are 344 barges that go with the ships.

Our primary income now, a big portion of it, is from storage, from inactivity.

Senator TRIBLE. Mr. Murray, I welcome your testimony today and I certainly hope you will have that opportunity.

Mr. MURRAY. Thank you, Senator.

Senator TRIBLE. I really yield to no one in my support for the U.S. shipbuilding industry and for a strong maritime presence. As you may know, as a Member of the House and Senate, I have been in the forefront of trying to revive our maritime industry. I must tell you, though, after waiting 30 years for a cruise ship to be built in the United States, I wonder whether we can wait much longer. The best way to insure that no action is taken by the Congress on this kind of legislation is for some entrepreneur in some shipyard to translate the words into action.

So, I invite you to do that. Again, I suggest to you that if you are concerned about this kind of legislative initiative, you have it within your capacity to bring this process to a halt.

Let's see ships constructed in American shipyards.

Mr. MURRAY. I think that is a totally proper position. I think we are trying to do that in a way by participation—

Senator TRIBLE. And I commend your leadership.

Mr. MURRAY [continuing]. In the reestablishment of the SS *United States*, and Mr. Steinbrenner—if I could make this observation—he would be the last man in the world that I would think would need a guardian. Let's hope he goes ahead with these cruise ships.

Senator TRIBLE. I'm not sure I'd want to be the captain of his ship, though.

Mr. MURRAY. No. I'd rather play center field up there and get one of those big salaries.

Senator TRIBLE. Gentlemen, I thank you for your testimony.

Mr. Bush, thank you for the testimony that you have shared with us today.

If there is nothing further, we will bring this hearing to a close.

[Whereupon, at 12:25 p.m., the subcommittee adjourned, to reconvene upon the call of the Chair.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF PAUL J. BURNSKY, PRESIDENT, METAL TRADES DEPARTMENT, AFL-CIO

Mr. Chairman, these views are presented on behalf of the Metal Trades Department, AFL-CIO, which represents the members of twenty-two affiliated international unions engaged in production work in the major U.S. commercial shipyards and in U.S. naval shipyards throughout the country.

The Metal Trades Department is *strongly opposed to S. 1935* and other legislation that would permit the re-flagging of foreign-built ships for the U.S. coastal trades—action that would further weaken the Jones Act. Last October, the Metal Trades Department's 62nd Convention unanimously adopted resolutions specifically opposing such Jones Act waivers and also adopted unanimously a separate resolution opposing re-flagging of the Cunard *Princess* and Cunard *Countess*, which are the subjects of the language of S. 1935.

The *real* title of this legislation should be "A Bill to Guarantee that Passenger Cruise Ships Will Never Again be Built in U.S. Shipyards" because that would be the net effect of favorable action on S. 1935. In fact, the introduction of this bill in 1985, a similar bill (S. 1197) in 1983, two House bills (H.R. 2883—a private bill—and H.R. 4333) in 1983, a 1984 "troop ship" amendment in the House, and other re-flagging proposals—ALL have been directed toward the exact same purpose—to permit two cruise ships, the Cunard *Princess* and the Cunard *Countess*—both foreign-built—to receive Jones Act waivers to enter the lucrative U.S. cruise market to serve coastwise ports.

All such Cunard measures have been *rejected* by the Congress over the past three years, but the introduction and consideration of such cruise ship re-flagging legislation has had a *chilling effect* on a number of other projects by which cruise ships would be constructed or modernized in U.S. shipyards by U.S. entrepreneurs. Investment capital for the U.S. cruise ship ventures has suddenly evaporated in virtually every case once it became known that the Cunard legislation had again been re-introduced—in some instances even after contingent construction contracts had already been signed, ship designs and specifications completed, and work was to begin in various U.S. shipyards badly in need of commercial ship construction. Hopes for new shipyard jobs for our members likewise were lost.

Thus, the extended consideration of legislation such as S. 1935—despite its continued rejection by Congress over the past several years—creates a deadly "Catch 22" situation. Proponents of the cruise ship re-flagging measures argue that such re-flagging would "revitalize" the American cruise ship industry and provide jobs for American seamen, while providing American tourists the opportunity to sail on a U.S.-flag vessel. To support their arguments, they say that such passenger vessels will not be built in U.S. shipyards anyway and that re-flagging will keep millions of U.S. tourists' dollars from going to foreign cruise ship operators. *But U.S. cruise ship entrepreneurs who have repeatedly sought to build modern, luxury passengers vessels in U.S. shipyards, with U.S. labor, to be manned by U.S. seamen have been continually thwarted in their financing efforts by the threat of Congressional approval of the re-flagging of foreign-built cruise ships.* Obviously, investors are reluctant to provide the necessary capital to build new cruise ships in U.S. yards if, by the time they are completed and ready for service, they may face an over-saturated market of re-flagged, foreign-built cruise ships enjoying an unfair competitive advantage.

But other important principles essential to the preservation of our shipbuilding industrial base are involved in the consideration of S. 1935 by this Subcommittee, Mr. Chairman. Enactment of this unwise, special interest legislation would seriously undermine the Jones Act, the bulwark of our nation's legal framework of maritime policy. Whenever Congress legislates still another waiver in our U.S. cabotage law, it drives another nail in the national maritime/shipbuilding coffin. The Metal Trades Department of the AFL-CIO has long been in the forefront in the defense of the Jones Act and opposes waivers that cripple that basic law. If more legislative exceptions are made to basic maritime laws, we will eventually discover that, for all practical purposes, they have been repealed.

It seems fairly obvious to us that S. 1935 as cleverly drafted—applying only to vessels having at least 400 cabins, built at least within the last 12 years, but not within the last two years, with troopship conversion capabilities—really is just a *private* bill for the re-flagging of the Cunard *Countess* and the Cunard *Princess*. This is precisely how this legislative farce began in 1983 with the introduction of H.R. 2883 in the House, a private bill, by Rep. Clay Shaw, a Florida Representative from the district where the firm "Cruise America Line, Inc." is located. This is the company seeking to obtain the re-flagging of the two Cunard cruise ships. House Rules prevent consideration of such private bills to benefit individual entities where basic changes in other statutes are involved and a parliamentary opinion sent the proponents of Cunard re-flagging legislation back to the drawing board.

But S. 1935 perpetuates the same private bill, special interest approach as H.R. 2883 because there are no other passenger vessels, according to authoritative research, that meet the description of eligibility for re-flagging under the terms of the bill—unless one considers Red Chinese ferry boats or passenger vessels whose owners have no intention of entering the American market. So what it boils down to is that enactment of S. 1935 would really be *private* legislation to benefit one company in their determined efforts to breach the Jones Act and to forever block the construction or reconstruction of American cruise vessels in U.S. shipyards.

The choices are clear, Mr. Chairman. If members of this body believe in and support the basic purpose of the Jones Act to preserve our national capability to build ships in U.S. shipyards, with a viable shipbuilding industry necessary for our national defense requirements, and a supply of skilled manpower to do the job—they will vote *against* S. 1935. We of the AFL-CIO Metal Trades Department strongly urge that you oppose this special interest legislation that would undermine the Jones Act, weaken our shipbuilding industrial base and cripple our national defense effort.

Statement of Diane Hendricks, Executive Director, American Maritime Officers Service

Mr. Chairman, Members of the Subcommittee, I am Diane Hendricks, Executive Director of American Maritime Officers Service (AMOS). AMOS represents 60 U.S.-flagged shipping companies, employing District 2 Marine Engineers Beneficial Association crews. Amongst our member companies is a cruise liner operation, American Hawaii Cruise Lines, which currently operates the only two active oceangoing U.S.-flag cruise ships.

The American Maritime Officers Service strongly supports S. 1935. Enactment of such legislation would go a long way in rescuing the U.S.-flag cruise ship industry and provide our nation with both economic and military benefits.

Our shipping companies operate in the private and public sectors. Our companies must apply marketplace profit and loss considerations and simultaneously compete with foreign nations whose ships are often subsidized 100%. Our companies participate in the Military Sealift Command by fulfilling increasing demands for highly skilled technical crews on militarily modern ships. It is important for both the private and public sectors to maintain a well developed merchant marine. S. 1935 will work toward this goal.

In the past, similar legislation has been considered but no final actions have been undertaken. It was thought by some that U.S. shipyards and private entrepreneurs should be given the chance to build U.S. cruise ships in U.S. shipyards. The fact of the matter is that in the past few years, despite several valiant attempts, no cruise ships have been built in the U.S. and there are no plausible projects slated for the near future. The primary reason for this lack of shipbuilding activity is the high cost of building a cruise ship in a domestic yard. Due to the significant foreign-flag penetration into the domestic cruise market, it is difficult to find investors to fund the building of a U.S. cruise ship, which can cost two or three times as much as a foreign-built ship.

Today, we are discussing the feasibility of allowing up to five foreign-built cruise ships into the U.S. domestic coastwise trade. Technical details, such as the actual number of ships allowed and the time period for entry, will be acted upon by the Committee. We are more concerned about the basics—granting U.S. operators and U.S. crews an opportunity to participate in this expanding industry.

We realize that, in any legislation pending before Congress, the bottom line is—how does it benefit the country? That is the main consideration and we believe S. 1935 will provide numerous benefits to our nation, thereby justifying its enactment.

S. 1935 will help the country in two very important ways—economically and militarily. In the interest of time, I will quickly mention several major benefits that I am sure will be elaborated elsewhere today:

ECONOMIC BENEFITS

The creation of a significant number of shipboard jobs and a contribution to the maintenance of shipyard employment which will be required to bring any foreign vessels up to Coast Guard standards and perform routine maintenance and vessel improvements.

Domestic voyages will open up new ports to cruise ship operations thereby generating significant port revenues and stimulating passenger spending in a variety of shoreside entertainment services.

The successful operation of passenger ships will generate personal and corporate tax revenues as well as reduce the nation's unemployment expenditures.

A properly developed U.S.-flag cruise fleet will allow American operators a chance to participate in a market that is virtually dominated by foreign-flag vessels. In 1984, Americans spent almost $3.5 billion on cruises. Over 90% of this money went to foreign interests because they operate all but two of the ocean cruise ships in the world.

An expanded U.S.-flag cruise fleet will be able to take advantage of a U.S. cruise market that is experiencing tremendous growth due to recent terrorism in Europe and the falling value of the U.S. dollar.

MILITARY BENEFITS

U.S.-flag cruise ships can serve as troop and supply transport ships and hospital ships.

U.S.-flag cruise ships can provide training of highly sophisticated crews.

Additional U.S.-flag cruise ships would ensure water transportation during a national emergency.

Currently, Communist-bloc countries have control over one-third of the world's largest cruise vessels. The U.S. has less than 1%. More U.S.-flag cruise ships will help alleviate this imbalance of militarily necessary vessels.

This brief overview of economic and military benefits outlines the merits of this legislation. S. 1935 would clearly aid the country on many fronts.

A final factor that must be considered here today is timeliness. The time is now. The market is ripe.

The U.S. has gone long enough without a proper U.S.-flag passenger fleet. Additional ships are needed to capture a fair share of the growing cruise market. Enough time has passed to prove that it is unreasonable to believe that U.S. cruise ships will be built in the U.S. It is time to let the private sector compete for the purchase of foreign-built cruise ships. There are at least 12 ships presently eligible for reflagging under S. 1935. It is time to allow reconstruction and maintenance contracts to be signed on a competitive basis. It is time for travel agents to book cruises. It is time for the U.S. economy to benefit from this growing industry. It is time to allow cruise ships to sail under the American flag.

STATEMENT OF JARRETT S. KROLL, PRESIDENT, FLOATING THROUGH AMERICA, INC.

Mr. Chairman, it is a privilege to file this statement with the Subcommittee on behalf of Floating Through America, Inc.

Our Company is in advanced stages of entering the luxury cruise business by offering tours of America's inland waterways. We are drawing on the experience of offering similar tours through European waterways conducted since 1977 by Floating Through Europe, Inc.

Our current plan calls for the construction of up to six, forty-two passenger cruise vessels which would operate, depending on the season, up to the Hudson River from New York, or further south in waters adjacent to Williamsburg, Savannah and Florida. Other likely itineraries include the Tennesseee River and the Upper Mississippi.

As a fledgling enterprise, Floating Through America, Inc., is vitally concerned over the prospect of reflagging foreign vessels to operate in trades now proscribed to them by the Jones Act. Floating Through America, Inc., is precisely the type of company that will be most gravely effected through passage of S. 1935. This statement, in fact, is only evidence of our continuing concern. On May 7, 1985, Floating Through America, Inc., formally opposed passage of similar legislation before the House Subcommittee on the Merchant Marine. We continue to oppose any legislative proposal which so blatantly discriminates on behalf of one company and against the interests of American built vessels, American shipyards and American vessel operating companies.

For over a century before the Jones Act was enacted in 1920, the United States had already reserved transportation of passengers in the domestic trade to vessels of its own flag and construction. This requirement rarely produced problems, although, admittedly, the passenger vessel industry has contracted steadily worldwide since 1950's. This fact should not be lost sight of. While few passenger vessels have been built in the United States in recent years, the same trend has been evidenced worldwide; and there are only a handful of passenger vessels in current orderbooks anywhere in the world. Our situation is therefore not unique.

The passenger vessel trade has been rejuvenated in recent years by the popularity of ocean cruises. Because of our dominant economic position in the 1950's, it is not surprising our passenger fleet suffered most severely from air competition.

Yet the plain fact is we are now rebuilding, without government outlays or special advantages. Between 1983 and 1987 the capacity of our fleet is expected to grow 250%, from 392,000 to 987,000 passenger nights. Estimated revenues during the same period should quadruple from $56 million to $208.5 million. I emphasize that this growth is occurring in the face of damaging restrictions on the Title XI program, vanishing Maritime subsidies on every front and reductions in available tax incentives.

The explanation for this growth is that present law reserves the domestic cruise market to U.S.-flag operators. As the popularity of cruises soared, it was natural that in time the U.S.-flag industry would grow.

It is equally predictable that some foreign flag operators should seek special legislative privileges in order to enjoy the benefits of a sheltered market in an overtonnaged world. The flaw in this proposal, however, is that it cannot be accomplished for one carrier, and not for all others. When the entry requirements are changed, lower cost foreign tonnage will enter the trade and quickly halt the growth of the American flag fleet.

If we change the rules, we change the game.

At the present time, American citizens comprise a full 70% of the cruise passenger market worldwide. Much of this market, due to foreign terrorist acts committed abroad, will be drawn closer to the United States. This trend may continue for several years and is a powerful impetus for marketing U.S. flag domestic cruises. It seems all the more remarkable, then, that with prospects for growth and with the national discussion of trade deficits, unfair competition (many of our foreign-flag competitors have cabotage laws which restrict U.S. vessels from their domestic trades) and the need for trade reform, we are hearing, again and again, of the need to open this fledgling U.S. market to foreign tonnage which has an inherent, unfair, cost advantage over our own vessels.

Why does this proposal continue to be advanced? Surely there are sound defense reasons for this legislation. If the concern is to increase the number of American seamen's jobs for national defense purposes, we should note that the actual number of deck and engine officers and seamen will not be as impressive as the number of total crew would indicate. While these large ships employ large crews, few billets have sailing or military utility since a large proportion is devoted to food and beverage services, entertainment and household work, etc.

The fact is the average crew of these foreign flag ships would not sustain impressively larger numbers of deck and engine berths than one of the smaller American flag cargo vessels. Labor and defense would fare far better with an increase in the number of small American flag cargo ships than with two of these larger ships.

I have great respect for our system of government and for the legislative process. Unfortunately, however, neither is conducted in a vacuum. The plain fact is that *proposals* to modify or weaken the current requirements for American built ships have a damaging impact on the ability to raise capital or interest investors in such a proposal. The very discussion of these ideas makes it more difficult to pursue constructive discussions on virtually any aspect of such a project.

I alluded earlier to many changes in the maritime policy of the United States which have reduced the promotional role of the government. I ask for no special treatment today, only that the law be left as it is and that some certainty be restored to permit the growth of our own American built domestic passenger fleet.

STATEMENT OF TALMAGE E. SIMPKINS, EXECUTIVE DIRECTOR, AFL-CIO MARITIME COMMITTEE, NATIONAL MARITIME UNION OF AMERICA, AFL-CIO

You and your Committee are to be commended for your efforts to rebuild an American-flag merchant marine.

After saying that, which I truly mean, I must say that in our opinion the effort under consideration again today, S. 1935, is misdirected. We are opposed, as we have been since this legislation first came up, for two basic reasons:

(1) It has the characteristic of private legislation; and,

(2) It falls short of its intended purpose—the resurgence of the U.S. cruise ship industry.

It has been our belief for some time that there is the potential for an American-flag passenger ship operation in the coastwise, intercoastal and offshore cruise trades.

The unions and the companies cannot, however, do it alone. There are several positive actions that are necessary on the part of the government that would, to use an expression heard often these days, "level the playing field."

We have reviewed the development of the American policy of restricting the carriage of merchandise and passengers by water in the United States to American vessels. Very briefly, that history, as we have been able to determine, is as follows:

Beginning in 1789 several laws were enacted that in effect reserved our domestic trade to ships built and registered in the United States. This was done by imposing a tonnage tax on foreign-flag ships.

More restrictive legislation was enacted in 1817 which prohibited foreign vessels from transporting merchandise between American ports. (Later these laws became known for the "Jones Act" because of the efforts of Senator Wesley Jones to promote an American-flag merchant marine and enact the Merchant Marine Act, 1920.)

An Attorney General ruled in 1843 that the prohibition against foreign-flag vessels transporting merchandise did not apply to passengers. As a result of this ruling foreign-flag ships could carry passengers but not cargo in our domestic trades.

This situation continued until 1886 when legislation was enacted forbidding foreign-registered ships from "transporting passengers between places or ports in the United States." A fine of $2 was established for each passenger carried in violation of the law. In 1898 this fine was increased to $200 and the language of the law was changed to add to the prohibition "either directly or by way of foreign port. . . ."

The circumstances surrounding the need for the change in 1898 was explained in the Secretary of the Treasury's letter endorsing the legislation—"Section 8 of the act of June 19, 1886, imposes a penalty of only $2 on foreign vessels carrying passengers from one to another American port. This small penalty is wholly inadequate to preserve the coastwise carrying of passengers to Anerican vessels on the long and expensive voyages from the Pacific Coast of the United States to Alaska, up the Yukon, etc. The penalty is increased to $200. The penalty for the like offense imposed by the Canadian laws is $400, and I respectfully suggest that the penalty proposed by this section may be increased to that maximum."

There were several rulings and interpretations upholding this law between its enactment and the ruling in 1912 by the Attorney General which permitted foreign-flag vessels to transport passengers from a port in the United States through domestic and foreign ports and return them to the port of departure. In our opinion, it is this ruling that has been primarily responsible for the fact that the American cruise trade is dominated by foreign-flag passenger ships.

There are approximately 80 foreign-flag passenger ships engaged in the U.S. cruise trade, 40 to 50 of which are either operating exclusively or operating a majority of their time out of U.S. ports and the 40 to 50 thousand people employed on the ships are predominantly recruited from around the world with an insignificant number from the States.

This fact has given us considerble consternation and as simple as the solution appears in our minds, the farther and farther away the necessary solutions appear to be.

We have the Jones Act, the Passenger Ship Act of 1886, the Immigration and Naturalization Act, the Fair Labor Standards Act, the National Labor Relations Act, the Civil Rights Act of 1964, and the Occupational Safety and Health Act, which are specifically designed to protect U.S.-flag shipping and the U.S. citizen work force. Unfortunately, not a single provision of these laws as they are currently written and interpreted applies to these foreign-flag ships, not even the ships that do all of, or a majority of, their business in the United States. In addition to these laws, there are other laws such as the safety standards requirements, the Federal and State

Tax Codes and the prohibition against gambling which disadvantage American ships in the marketplace because they apply only to U.S.-flag ships.

We have no doubt but that American-flag ships could be competitive in this cruise trade if their capital costs were equated and if the application of government laws were applied uniformly. American labor costs, as we envision them, would not disadvantage their operations.

The adoption of just this legislation will only put a couple of passenger ships in operation for one or maybe two years. When that happens we will have lost the opportunity to make it possible for American-flag passenger ships to engage in our lucrative and growing passenger trade.

If an American passenger operation is to have a chance of succeeding in our trade, which is already crowded by foreign ships that are subject to only the barest of regulations, it is necessary to take what may be considered drastic actions. We propose the following:

(1) Extend the "Jones Act" and the Passenger Ship Act of 1886 so that only American-flag ships could engage in the U.S. cruise trade;

(2) Permit for a two-year period the reflagging of any foreign-flag ship under a certain age to the U.S.-flag; and at the same time,

(3) Extend all U.S. laws, both labor and safety, to all vessels regardless of flag if they are regularly engaged or do a substantial amount of their business in the U.S. trade.

If for whatever reason the three proposals are considered too severe, we submit that the third should, as a minimum, be adopted. An American-flag operation cannot exist and compete against foreign-flag operators whose area of operation is substantially the same but whose costs are substantially less. The adoption of the third proposal would "level the playing field."

TODD PACIFIC SHIPYARDS CORP.,
SEATTLE DIVISION,
Seattle, WA, May 20, 1986.

Hon. TED STEVENS,
U.S. Senate, Chairman, Committee on Commerce, Science, and Transportation, Washington, DC.

DEAR SENATOR STEVENS: I appreciate your invitation to appear before the Senate Merchant Marine Subcommittee relative to S. 1935 and S. 1929 on June 4, 1986. Unfortunately, I have an unavoidable scheduling conflict that precludes my attendance.

My interest in these bills naturally pertains to shipbuilding and ship repair. Our shipyard in Seattle performs both of these functions equally well. We are interested in any legislative activity that would increase our opportunity to maintain a nucleus of a work force. As you are aware, the recent decline of business for all shipyards on the West Coast has been devastating. In the Seattle-Tacoma, Washington, area alone, ten thousand out of thirteen thousand shipyard employees have lost their jobs because of lack of work in the last five years.

The West Coast Shipyard Industrial Base is a vital resource relative to National Defense. We desperately need federal legislation that will increase both shipbuilding and ship repair opportunities on the West Coast. Any Bill must be carefully developed so that neither the shipbuilding nor the ship repair segment of our business suffers at the expense of the other.

Very truly yours,

JOHN T. GILBRIDE, Jr.,
Vice President and General Manager.

OFFICE OF THE MAYOR,
San Francisco, May 21, 1986.

Hon. TED STEVENS,
Senate Hart Office Building,
Washington, DC.

DEAR SENATOR STEVENS: I am writing to urge you and the members of your distinguished committee to pass S. 1197, the bill to permit entry of up to five modern cruise ships into the U.S. coastwise trade.

Passage of this timely legislation will help revitalize the American cruise ship industry and foster tourism in the United States without any government subsidies.

As I am sure you have heard from other sources, ships built in American shipyards cannot be priced competitively with ships built in foreign shipyards. Since current law requires that a vessel must be built in the United States in order to operate in the coastwise trade, there are no modern cruise ships operating today under the U.S. flag. Instead, we find that presently there are about ninety foreign flag ships serving the American cruising public. There foreign flag ships are restricted by U.S. law to calling at a limited number of U.S. ports and are prohibited from carrying passengers between U.S. ports.

As a result, the cruises offered today to the U.S. public are to Carribbean, Mexican, and Canadian destinations. There are no cruises offered solely between American ports.

In essence, our current law operates first to grant American cruise business to foreign flag ships and second, to restrict these foreign flag cruises from calling at U.S. ports. Consequently, profits from the American cruising industry are going into foreign pockets, and potential earnings are lost to local economies of areas visited on cruises. In the past month, I have heard of three new 60,000 ton vessels which will be under construction by the end of next year and will be under foreign flag.

Allowing these large, modern ships to operate cruises between American ports will provide numerous jobs and revenues to ports of call, through on-shore tour programs, entertainment, and shopping by visiting passengers, and ship repair services at domestic shipyards. The cruises offered by U.S. flagships will open up new areas in cruises and will allow Americans to visit cities and areas in their own country, operating to benefit the American tourist industry as a whole.

In addition to these shoreside benefits, other economic benefits would be derived from the operation of modern U.S. flag cruise ships. Employment would be provided for U.S. merchant seamen. There would also be numerous purchases associated with the operation of an ocean-going passenger vessel such as fuel oil, stores, and vessel repair.

Passage of this long-overdue legislation would benefit American ports by providing substantial earnings to local economies of the ports visited. Finally, it would signal the return of American ship ownership in the U.S. cruise industry.

Thank you for your consideration of S. 1197.

Sincerely yours,

DIANNE FEINSTEIN, *Mayor.*

DRYDEN OIL CO.,
Baltimore, MD, May 21, 1986.

Hon. DANIEL K. INOUYE,
Senate Hart Office Building,
Washington, DC.

DEAR SENATOR INOUYE: Our company founded in 1893 with plants and marketing on the East Coast, has been serving the Maritime industry over the years, and never has this industry suffered more unemployment and less revenue-producing activity than today.

We have read with great interest of the efforts to reflag and trade coastwise five modern cruise ships. Although we are Jones Act advocates, we feel that this Act in no way applies to the U.S. passenger ship trade in today's environment. We need jobs now. We need to sell our products (lubricating oils and industrial greases) to the marine trade now, and we are sick and tired of seeing the lucrative American cruise passenger trade going to foreign interest. We have not as of yet read of any rational reasons why the United States should allow this opportunity to pass, thereby further committing the cruise business to offshore companies.

Please submit into the records of S. 1935.

We urge your support of S. 1935.

Sincerely,

LINDSAY D. DRYDEN,
Chairman of the Board.

Princess Cruise Lines,
Plymouth & Provincetown Steamship Co., Inc.,
May 21, 1986.

Hon. Ted Stevens,
Senate Hart Office Building,
Washington, DC.

Dear Mr. Stevens: Princess Cruise Line, a division of the Plymouth & Provincetown Steamship Company, wishes to express its support of Senate Bill 1935, a measure which would permit five foreign constructed cruise ships to be documented under U.S. registry with U.S. crews and ownership. Our company operates five American flag passenger vessels under subchapter T requirements in the Jones Act trade between Plymouth and Provincetown, Massachusetts and believes that this legislation will foster, at long last, the development of a viable U.S. flag cruise industry at no expense to the tax payer.

Princess Cruise Lines encourages you to fully support S. 1935 as the *only* viable means by which a domestic cruise industry can be developed. Repeated attempts to stop similar legislation during the last several sessions of Congress because of promised new buildings and conversions have resulted, quite predictably, in absolutely no new U.S. flag service and the prospects without such legislation will continue to be blank.

We applaude the efforts of Senator Stevens on his continuing interest in the American Merchant Marine and look forward to seeing the stars and stripes again at U.S. ports. Please include these remarks in the record.

Sincerely,

Joseph L. Sylva,
Treasurer and Secretary.

Viking Cruises,
May 23, 1986.

Hon. Ted Stevens,
Senate Hart Office Building,
Washington, DC.

Dear Senator Stevens: Viking Cruises operates scheduled passenger service between Portsmouth, New Hampshire and the Isles of Shouls aboard the U.S. flag M.V. *Viking Sun*. As a U.S. flag operator, we are deeply concerned about the total absence of a U.S. flag cruise fleet employing modern cruise tonnage with normal cruise ship amenities. Because of the numerous and on-going failures of those interested in constructing major new buildings and/or converting existing laid-up U.S. built ships, we must request your support of S. 1935.

S. 1935 would permit up to five large modern cruise vessels to be reflagged as U.S. ships with coastwise trading privileges. This legislation would not be predicated upon government loans or subsidies, particularly important in this Gramm-Rudman era, and would provide much needed employment for American seafarers. In addition, American cities such as Portsmouth, which currently has no cruise service, could benefit from cruise calls. Portsmouth's local merchants, including shopkeepers, restaurateurs, florists, stevedores, tour operators, etc. are excited about those prospects and share my desire for S. 1935's speedy passage.

The Congress must now take the initiative, through legislation, to enable Americans to cruise our shores and not continue to force our citizens to utilize foreign owned and crewed ships.

Please include these remarks of support in the record of S. 1935.

Sincerely,

Robert H. Whittaker, *President.*

Seattle Ambassador Inc.,
Seattle, WA, May 27, 1986.

Hon. Ted Stevens,
522 Senate Hart Office Building,
Washington, DC.

Dear Senator Stevens: It is with continuing interest and frustration that I am writing to you to suggest your support of S. 1935.

Legislation to develop a U.S. Flag Cruise Fleet has been introduced during the last three sessions of Congress. The House, last session, voted by an overwhelming majority to permit the reflagging of a limited number of foreign built passenger vessels. The Senate, has, however, delayed any positive action of reflagging in order to provide interested parties the opportunity to construct new passenger vessels in the United States or to rebuild existing U.S. built passenger vessels which include the Monterey, Santa Rosa, and United States. All of these vessels were, however, constructed with Construction Differential Subsidies and required special legislation to permit them to enter the coast-wise trade. Unfortunately for all concerned, not one of these projects has progressed. In fact, no passenger vessels have been built in this country in nearly three decades.

In the State of Washington, during the last reflagging debate, contracts were signed for the construction of more passenger ships, two for the Contessa Cruise Line and two for Gulf Pacific Cruise Line. In addition, a contract was signed with Tacoma Boat for the rebuilding of the Monterey. Of course, none of these ships was ever built or refurbished.

Certain aspects of the new Tax Bill, including the elimination of the Title X1 Program have further aggravated U.S. shipping. Recent Customs Rulings have, in addition, opened up our protected Jones Act trade to foreign owned and manned ships and eliminated almost entirely any benefits to U.S. owned and manned ships.

Realizing that none of the above projects will ever succeed, it has become quite apparent that the Senate must not further delay America's entry into the international cruise market. To this end, S. 1935 presents the most realistic opportunity for American entrepreneurs to enter this trade and still remain competitive with the ninety foreign flag ships which sail from U.S. ports.

Sincerely,

THOMAS O.C. KOOLEN, *President.*

DISTRICT NO. 1,
PACIFIC COAST DISTRICT, MEBA (AFL-CIO),
May 27, 1986.

Hon. DANIEL K. INOUYE,
U.S. Senate, Hart Senate Office Building,
Washington, DC.

DEAR SENATOR INOUYE: In view of the attached communication, I requested the Joint Maritime Congress to conduct a survey of the foreign-flag passenger cruise vessels identified by one of the proponents of S. 1935 as eligible for reflagging. I believe that you will find the results of some interest.

You will see from the attached report that the owner/operator of each of the vessels listed *Atlantic, Europa, Fairsky, Niew Amsterdam, Noordam, Pegasus, Song of America, Stardancer,* and *Tropicale*—have no plans to sell their ships or to reflag them for themselves by setting up a U.S. corporation.

Although these vessels technically fit the description set forth in S. 1935, to suggest that the owners of these vessels have any interest in taking advantage of the reflagging authority that would be granted under S. 1935 strains credulity. The critical question here is whether any of the vessels listed apart from the *Cunard Princess* and *Cunard Countess* are available for sale. The answer is no. Accordingly, it still remains that the only two vessels which are available for reflagging and meet the terms of S. 1935 are the *Cunard Princess* and the *Cunard Countess.*

Many a young bachelor will see a glamorous actress on the screen who conforms to the specifications they are looking for in the girl of their dreams. She is, however, as eligible for that bachelor as the cruise ships listed in the proponents' letter. The logic here that because vessels of a certain size and shape merely exist means that they are likely to be affected by S. 1935—defies any common sense whatsoever.

With kindest personal regards.

Sincerely,

C.E. DEFRIES, *President.*

NEW HAMPSHIRE STATE PORT AUTHORITY,
Portsmouth, NH, May 28, 1986.

Hon. TED STEVENS,
Senate Hart Office Building,
Washington, DC.

DEAR SENATOR: As you well know there is a bill before you on the Commerce, Science, and Transportation Committee which would revitalize the American Cruise

Industry. Senate Bill 1935 will permit up to five foreign built passenger vessels to be reflagged as United States ships.

The State of New Hampshire and the Port Authority highly urges the passage of this bill. The passage of such a bill is a measure which will enhance the American Merchant Marine.

Besides a number of other benefits it could have a tremendous economic impact on the city of Portsmouth and the surrounding communities which depend upon the tourist industry. S. 1935 would also have an impact on the U.S. shipyards as all repairs and overhaul work will be done in U.S. yards.

Potential entrepreneurs have repeatedly spoken in the past about building luxury U.S. flagships but, other than a number of smaller vessels carrying between 50 and 100 passengers along intercoastal waterways and on a limited number of coastal waterways and itineraries, none have been built to compete with the large foreign flag cruise ship fleets.

I urge speedy passage of the S. 1935 so that we all can see the resurgence of American passenger ship travel.

Sincerely,

George E. Smith, Jr., *Port Director.*

TravAlaska Tours,
Seattle WA, May 28, 1986.

Hon. Daniel K. Inouye,
Senate Hart Office Building,
Washington, DC.

Dear Senator: I am writing to you in support of S. 1935, legislation which would permit five foreign built cruise ships to be American flagged.

As President of TravAlaska Tours, a Seattle-based tour company which annually sends 5,000 vacationers to Alaska, and founder of Westours, Alaska's largest tour operator, I am particularly concerned with the lack of American ships cruising America's last frontier. Not since the demise of the Alaskan Steamship Company in 1954 has the Inside Passage cruise industry seen a major United States passenger vessel. From that date forward, there have been no American passenger ships operating in Alaskan waters until the introduction last year of the 98-passenger *Majestic Alaska Explorer* (Exploration Holidays and Cruises). All of the remaining ships are foreign registry, flying the flags of the Bahamas, Netherlands Antilles, Monrovia, England, Italy, and other foreign ports of origin.

1957 was the beginning of strictly passenger ship operations geared to the sale of package tours. My former company, Alaska Cruise Lines, Ltd., began package tours in that year with two small steamers under the Canadian flag. This was the turnaround in the passenger business in Southeast Alaska. Our success attracted other companies. In 1969, the SS *Monterey* entered Alaskan waters. This was a short-lived operation due to the demise of that firm. Shortly thereafter, Princess Cruises began operation with the *Princess Italia*, followed shortly by the *Princess Carla*. I sold my company and its four ships to Holland America Cruises in 1971. That company has continued to serve Alaska, and introduced a new 1,200 passenger ship, the *Nieu Amsterdam* (Netherland Antilles registry) into Alaskan waters in 1984.

There is a long and growing list of presently foreign flag carriers serving Alaska whose total cruise revenues exceed $300 million (US) a year. The foreign ships, because of the Jones Act, depart from Vancouver in British Columbia, bypassing Seattle. The resulting loss to the economy of the State of Washington is substantial, and passengers are required to travel the additional distance into British Columbia to board their foreign flag cruise ship.

I whole-heartedly endorse S. 1935, which would put an end to a foreign monopoly in American waters, and provide for American owned, American flagged, American manned and maintained ships. As an American corporation this enterprise would in addition be subject to American tax laws. This bill would pave the way for a return of American ship ownership in the Alaska cruise trade.

I appreciate your consideration of this very important measure, and am hopeful that you will endorse S. 1935. Please submit this statement for the record of the hearings on S. 1935.

Sincerely,

Charles B. West, *President.*

American Cruise Lines Inc.,
Haddam, CT, May 29, 1986.

Senator Ted Stevens,
Chairman, Senate Subcommittee on Merchant Marine,
Hart Senate Office Building, Washington, DC.

Dear Senator Stevens: I am writing to you today to voice my opposition of S. 1935, which would allow up to five foreign-built passenger vessels to operate in U.S. domestic trade. *We remain strongly opposed to any measure resembling the Cunard Initiative,* which has been defeated repeatedly in both Houses of Congress. S. 1935 is very similar to the Cunard private interest bill, and represents a major violation of the Jones Act and, as such, will seriously disrupt the United States domestic cruise industry as it exists today.

American Cruise Lines over the past 13 years has pioneered the development of the luxury cruise vacation business along the East Coast, from Maine to Florida, and since 1984, on the Mississippi and Ohio Rivers. *Our ships operate in 22 states, depart from nine cities, and visit approximately 110 U.S. ports of call. In our fiscal year 1985, we booked vacation cruises for over 6,000 passengers,* and we believe we are one of the largest domestic vacation cruise operators.

The company operates three cruise ships, each of which was built in the United States and purchased new in the past four years.

Currently, the company has under construction another approximately $10 million sister ship which will be delivered in the spring of 1987, and an option on a second vessel for delivery in 1988. Both of these vessels will be built in the United States. In addition, I should note that our company has in the past purchased and operated three other new U.S. built ships.

In our opinion, the shipbuilding activity for which we have been responsible and the tourist business which we bring to our ports of call, provide a significant number of jobs in the United States.

I do understand that the ships contemplated in S. 1935 are larger than those operated by American Cruise Lines. However, the fact remains they will be competing in the same marketplace, and will be competing with the advantage of foreign government support in the form of subsidized financing and construction costs.

This would be a major change in the already highly competitive domestic cruise market, *and would seriously undermine the viable U.S. passenger trade which exists today and cause the existing fleet to become immediately obsolete. It would also cause our company immediately to apply for the same ability to re-flag or have ships constructed abroad for domestic operation.* As you are surely aware, the world shipbuilding industry is characterized by substantial overcapacity and cut-throat competition in the form of government sponsored construction cost subsidies and very low rate, long-term financing. Competition and our obligations to creditors and shareholders would require us to take advantage of those subsidies.

Thank you for the opportunity to register my opposition to S. 1935. I would be glad to discuss further this important issue of allowing foreign built vessels domestic privileges.

Sincerely,

Charles A. Robertson,
Chairman of the Board.

Hvide Shipping, Inc.,
Fort Lauderdale, FL, May 29, 1986.

Hon. Ted Stevens,
Senate Hart Office Building,
Washington, DC.

Dear Senator Stevens: Hvide Shipping, Inc. and Seabulk Tankers (a Hvide Subsidiary) would like to enlist your support of S. 1935, an important measure which will foster the development of a domestic cruise industry. Our companies operate four integrated tug and barge vessels, each over 40,000 d.w.t, under the American flag with American crews. Two of these vessels were constructed with CDS and receive CDS while the other two are successfully traded in the protected domestic trades. In addition, Port Everglades Towing and Port Canaveral Towing (other Hvide subsidiaries) operate six American registered tugs providing the harbor towing services at Port Everglades and Port Canaveral.

Although Hvide Shipping is fully committed to American merchant marine policies, the Jones Act and cabotage regulations, we feel in no way threatened by S. 1935. The five cruise ships will be vying for the discretionary cruise dollar, competing directly with foreign owned, foreign flagged, foreign crewed passenger vessels. At a time when authority has been granted for American operators to construct and/or convert vessels abroad, while still qualifying for operating-differential subsidy, it is unconceivable that we should not encourage the registry of five modern passengers ships to our flag and carrying American seamen in our domestic trades, directly competing with the dozens of foreign operators.

These vessels will not be in competition with any existing ships and based on current building costs, it is my opinion that no professional operator could profitably trade a cruise ship built, financed, and crewed in this country. The cost of merchant vessel construction in this country is currently two to three times that of foreign construction.

Hvide Shipping, is confident that no American operator will be prejudiced by enactment S. 1935 and many will, in fact, benefit by providing the direct support services required of major passenger ships.

Please include this statement for the record.

Sincerely,

HANS J. HVIDE,
Chairman of the Board.

STATE OF FLORIDA,
OFFICE OF GOVERNOR,
May 30, 1986.

Hon. TED STEVENS,
U.S. Senator,
Hart Senate Office Building, Washington, DC.

DEAR SENATOR STEVENS: I am writing to you regarding S. 1935, a measure designed to stimulate a cruise trade along the United States' coast lines. Our State is heavily dependent upon the cruise industry and the scores of foreign flag vessels which currently depart from Florida ports such as Miami, Fort Lauderdale, Palm Beach, Port Canaveral, Tampa, and St. Petersburg. We believe that the adoption of S. 1935 would further benefit Florida's economy by affording passengers the opportunity of touring our peninsula by luxury cruise ship for the first time in our State's history. We well understand the economic impact of these prospects and suspect other Atlantic, Gulf, Pacific, and Great Lakes coastal states would equally benefit from the passage of S. 1935.

As Governor of the State of Florida, I strongly urge your Committee's endorsement of this legislation which, if enacted, will provide for much-needed employment in maritime and tourist industries and will permit American and foreign vacationers to enjoy our nation's seagoing heritage and seacoast areas.

Sincerely,

BOB GRAHAM, *Governor.*

NORTHROP AND JOHNSON,
YACHTS-SHIPS,
Fort Lauderdale, FL, May 30, 1986.

Hon. TED STEVENS,
Senate Hart Office Building,
Washington, DC.

DEAR SENATOR STEVENS: As president of Northrop and Johnson, one of our nation's largest yacht and ship brokers, I am writing in support of S. 1935, legislation which would herald a new beginning for our U.S. cruise industry.

We can all very well remember the demise of America's great passenger fleet:

the SS *Constitution* in August 1968,
the SS *Independence* in November 1968,
the SS *Argentina* in September 1969,
the SS *Brazil* in September 1969,
the SS *United States* in November 1969,
the SS *Santa Paula* in January 1971,
the SS *Santa Rosa* in January 1971,
the SS *Monterey* in January 1978,
the SS *Mariposa* in April 1978,

all of which sank into the sea of red ink as their government subsidies dried up. The *Argentina* and *Brazil*, after an extended lay-up in Baltimore, were sold to the Dutch to become the Holland American vessels *Veedam* and *Volendam* and today belongs to the Tung Organization and sail as the *Bermuda Star* and *Liberte*: the *Constitution* and *Independence* to be sold to C.Y. Tung, to later become American Cruisers thanks to the foresight of your committee. The *United States*, to prematurely become a rusting leviathan permanently moored to the Norfolk International Terminal pier, the result of a devastating purser's (NMV) strike; the *Santa Paula*, to become a land-locked Marriott hotel in Kuwait; the *Santa Rosa* to become a listing hulk at an abandoned grain pier somewhere in Baltimore's Outer Harbor; the *Mariposa* also, to be sold to C.Y. Tung and towed to Japan. A recent Journal of Commerce article lists the *Mariposa* as having been sold to the Red Chinese (Shanghai Jinjian Shipping Co.) and the *Monterey*, America's last surviving passenger vessel which between 1965 and 1978 received $47,615,000 in U.S. government subsidies to become a permanent eyesore in San Francisco Bay.

This, Senator, is the reality of America's passenger fleet. We have, since 1965, witnessed the demise of each and every American passenger vessel. No new passenger vessel has begun construction in this country since 1955, thirty-one years, and the prospects for any new construction are today, less likely then at any time in the last three decades.

With the elimination of Construction Differential Subsidy, the limited appropriations of Title XI money and the unavailability of Operating Differential Subsidy, no new major passenger vessel will be built in this country. It is your responsibility to recognize the dilemma of the industry and to grant, on a very limited, case-by-case basis, waivers to the Jones Act which will serve to stimulate new interest and business for our passenger ship industry. The enactment of S. 1935 may prove to be that stimuli and American entrepeneurs were to be successful in developing a viable American trade, we could then, and only then, expect to see major U.S. passenger ship construction.

Sincerely,

ROBERT FISHER, *President.*

SEABREEZE TRAVEL, INC.,
Fort Lauderdale, FL, May 30, 1986.

Hon. DANIEL K. INOUYE,
Senate Hart Office Building,
Washington, DC.

DEAR SENATOR INOUYE: I am writing to reaffirm my strong support of S. 1935 to permit the reflagging of five foreign passenger ships for use in the coastwise trade. This bill is inuque, in that it offers luxury cruise service to American ports exclusively, service not presently offered by any operator. Although various small American operators do operate inland waterway service, namely American Cruse Line, Clipper Cruise Line, and Exploration Holidays & Cruises, all voyages are aboard small, less than 100—passenger vessels that do not have the customary facilities that typical cruise pasengers require. These facilities include night clubs, discotheques, shows, cabarets, swimming pools, movie theatres, shops, hospitals, etc.

I frequently read in the travel press, articles concerning new proposed U.S. built ships and the return of old laid-up lines (SS *Monterey*, SS *Santa Rosa*, and SS *United States*) all of which, through the years, have proven unfounded. In the interim, Americans and American communities have been deprived of any and all true cruise service, accounting for significant losses for both sectors.

It is time your committee recognizes the facts; the fact that America's two ship passenger fleet ranks twelfth in terms of gross tonnage amongst the world's cruise fleet, and averages twenty first in age, behind such countries as the Bahamas, China, France, West Germany, Greece, Italy, Japan, Liberia, Netherland Antilles, Norway, Panama, Poland, Portugal, Singapore, the United Kingdom, The U.S.S.R., and Yugoslavia; the fact that over 50% of our merchant seamen today are unemployed; the fact that no new U.S. built ship has been built since 1958; the fact that no new major U.S. passenger vessel will be built for a unproven, untried coastwise trade in the foreseeable future; the fact that we annually export hundreds of thousands of citizens, on foreign ships to foreign ports; the fact that Americans cannot cruise their own coasts and Great Lakes; and the fact that hundreds of millions of our American dollars are being shipped overseas when they could, and in many instances, would prefer to remain right here.

Enactment of S. 1935 will, at long last, put Americans and American vessels into the cruise industry with modern ships with proven performance records and high passenger recognition levels.

I will continue to closely monitor your committee's actions on behalf of S. 1935.

Please include this statement for the record.
Sincerely,

CAROL B. LLOYD, *Manager.*

PORT OF NEW ORLEANS,
May 30, 1986.

Hon. DANIEL K. INOUYE,
*Senate Hart Office Building,
Washington, DC.*

DEAR SENATOR INOUYE: As one of the nation's largest seaports, New Orleans, wishes to express its support of S. 1935 as an immediate means of bolstering our rapidly diminishing U.S. flag Merchant Marine and providing jobs for U.S. seamen and dock workers.

Over the years, New Orleans has hosted many cruise vessels, practically all of foreign flag resistry. Our Board in concert with the private sector has developed a modern passenger vessel terminal and are encouraging utilization of same by the cruise ship industry.

We look forward with pleasure to welcoming in the near future modern cruise vessels flying the stars and stripes.

Please include this statement for the record.
Sincerely,

HENRY G. JOFFRAY,
Acting Port Director and General Manager.

J.J. HENRY CO. INC.,
May 30, 1986.

Hon. DANIEL K. INOUYE,
*Senate Hart Office Building,
Washington, DC.*

DEAR SENATOR INOUYE: In the coming weeks there will be hearings by the Commerce, Science and Transportation Committee concerning the "Cruise Industry Development Bill". Senate Bill 1935 has been developed so as to permit five foreign built passenger vessels to be reflagged as U.S. vessels with American ownership and crews. We believe the passage of this bill will benefit a broad spectrum of the American populist in the near future by providing employment to American seamen and shipyard personnel and coastwise cruising opportunities to scores of American tourists since none of the proposed U.S. built cruise ship projects have developed. Besides the commercial benefits, the ships would provide sealift capability to the military establishment in an emergency by contributing towards the identified 17,000 shortfall in troop lift mobility.

We were asked to provide our estimated price for a new passenger vessel constructed in the United States to a standard equivalent to that currently being constructed in Europe. As you know, there have been no passenger ships built in the U.S. for many years and thus no established benchmark is available for reference. We have derived our U.S. built cruise ship estimated cost from published data and J.J. Henry Co., Inc.'s many years of experience.

Detailed comparisons between U.S., and foreign built ships have not been made in the past few years due to the fact that there has been no need for this information since the expiration of construction differential subsidy programs. It is, however, generally accepted that U.S. built ships cost more than twice as much as containerships, tankers and bulk carriers built in the Orient. We would not expect that passenger ship costs would follow this relationship because of the large amount of outfitting work and the fact that European wage rates are more comparable to those in the U.S. It is our opinion that foreign built passenger ship prices would be 60–70 percent of the U.S. shipyard prices, assuming comparable passenger ships.

Our staff has analyzed new overseas passenger ship construction prices starting in 1980 and developed a price per passenger berth for 1986/87 delivery for European built passenger ships. It is our opinion that the price per passenger berth would range from 145,000 to 170,000 U.S. dollars. Therefore, we would expect the price of a 900 passenger ship to be in the range of 113 to 135 million U.S. dollars when built in Europe. Accordingly, a 900 passenger ship built in the United States and delivered in 1988 would be priced in the range of 181 to 252 million U.S. dollars. A detailed study of the design would be required to develop a more accurate price.

We also reviewed the cost of a 1400 berth vessel comparable in size to those now being built in Europe and derived prices in the range of 270 to 375 million U.S. dollars.

We hope that this information will be of assistance to you in evaluating the proposed Bill and would appreciate your including this statement for record in S. 1935.

Sincerely,

C.H. Gross, Jr.,
Senior Vice President.

Tampa Port Authority,
May 30, 1986.

Hon. Daniel K. Inouye,
Senate Hart Office Building,
Washington, DC.

Dear Senator Inouye: The Tampa Port Authority wishes to go on record as supporting the above referenced bill which admits five foreign-built passenger ships to U.S. registry.

The Port of Tampa enjoys considerable amount of cruise passenger traffic and the business has had a profound economic benefit to our area. It appears to us that cruise ships should have the capability of calling at consecutive U.S. ports so that other port cities not favored by having cruise ships based in their ports may have an opportunity to participate and also enjoy the economic benefits.

The five U.S. flagged vessels now in the cruise business are operating around the world. We feel the East and Gulf Coast should have this same type service. Not only would this service be highly beneficial economically, but would service public convenience and necessity.

As promoters of the U.S. Merchant Marine, we support this bill to further show our interest for this worthy cause. Thank you for your favorable consideration of this worthwhile legislation.

Please include this in the record for S. 1935.

Sincerely,

H.E. Welch,
Director of Traffic.

Norfolk Port and Industrial Authority,
Norfolk, VA, June 2, 1986.

Hon. Ted Stevens,
Senate Hart Office Building,
Washington, DC.

Dear Senator Stevens: This letter places the Norfolk Port and Industrial Authority on record as fully supporting Senator Ted Steven's Bill No. S. 1935 to reflag five foreign flag ships, thus allowing all five vessels to sail between the U.S. Ports to embark and discharge passengers.

Yours very truly,

Kenneth R. Scott,
Executive Director.

City of Superior, WI,
Office of Planning and Port Development,
June 2, 1986.

Hon. Daniel K. Inouye,
Commerce, Science, and Transportation Committee, Hart Senate Office Building, Washington, DC.

Dear Senator Inouye: The Superior Harbor Commission endorses S. 1935, which will enable five modern cruise vessels to operate in our domestic commerce. Our port region, which consists of approximately 250,000 residents, would be ideally suited for the contemplated domestic cruise service. The City of Superior could expect to benefit from a myriad of services required by major passenger vessels with complements of 900+ passengers.

We recognize that the Commerce, Science, and Transportation Committee must exempt these five ships from the American-built requirement of the Jones Act. We understand, however, that the vessels will be required to fully comply with A.B.S.

and U.S. Coast Guard requirements, including American manning. I believe, therefore, the benefits far outweigh the drawbacks in this particular situation, as no major passenger vessel has been constructed in the United States in over 30 years. I believe a quarter of a century is ample time to permit other "real" operators to construct similar vessels and, therefore, urge the Committee to enact S. 1935 as soon as possible.

Please submit this statement for the record.

Sincerely,

WILLIAM G. LEHMAN,
Director of Planning and Port Development.

INTERNATIONAL ORGANIZATION OF MASTERS, MATES & PILOTS,
Linthicum Heights, MD, June 3, 1986.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science and Transportation, Senate Hart Office Building, Washington, DC.

DEAR MR. CHAIRMAN: The International Organization of Masters, Mates and Pilots, ILA, AFL-CIO, wishes to register its opposition to S. 1935, a bill to permit certain foreign built passenger vessels to be documented under the U.S.-flag with full coastwise trading privileges. The purpose of S. 1935, "to revitalize the domestic passenger ship fleet," is certainly admirable. However, we do not believe that S. 1935 presents the best avenue to this end.

S. 1935 is the epitome of "special interest" legislation. The bill will grant special privileges to one and only one company, i.e. Cruise America. While S. 1935, compared to its predecessor bill, S. 1197, appears on the surface to be broader and more generic in approach, closer examination reveals that the bill is clearly intended to *limit* reflagging to the *Cunard Countess* and the *Cunard Princess*. A virtual monopoly will be created for the owners of these two vessels. The economics of the cruise business will preclude the entry of any domestically constructed vessels.

As we have said in the past, all parties interested in the domestic cruise industry should operate under and comply with the same rules. It is patently unfair to allow one party to bypass longstanding maritime policy while others, interested in placing vessels into service, have attempted to do so in full compliance with the laws and with no special favors from Congress.

Mr. Chairman, the MM&P is painfully aware of the chilling effect this kind of special interest legislation has on the ability to secure adequate financing for ventures consistent with Jones Act requirements. We know for a certainty that potential investors lose interest in becoming part of a venture that is subject to losing a minimum of 40 percent of its capital investment base when its position in the domestic trade can be wiped out by a stroke of the pen.

Our efforts to return the SS *Monterey* to Jones Act passenger service are well know. Unlike the supporters of reflagging legislation, we have invested a considerable sum of money to acquire and financially warehouse a Jones Act-qualified vessel, the SS *Monterey*, in contemplation of further revitalizing the domestic cruise trade. If not for our efforts to keep this ship under the American flag, it is likely it would today be sailing with its sister ship, the *Jin Jiang* (formerly, the SS *Mariposa*), in the People's Republic of China. We and others who have made such investments have done so because we believe in the sanctity of our nation's cabotage laws, laws affirmed and reaffirmed countless times by this Committee and the Congress.

Ad hoc legislation like S. 1935 is not a substitute for meaningful maritime policy. If after examination our existing cabatoge laws and policy are outmoded and ineffective, then even-handed changes should be made. Just as all parties should comply with existing law, then all parties should be able to take advantage of any alternatives.

In conclusion, Mr. Chairman, the MM&P does not believe that S. 1935 provides a true opportunity to revitalize the U.S.-flag passenger fleet. Consequently, we cannot support the bill. As always, we appreciate your sincere commitment to the American merchant marine and we look forward to working with you and your Subcommittee to promote the industry in a fair and equitable manner.

We request that this letter be included in the hearing record to accompany S. 1935.

Sincerely,

ROBERT J. LOWEN,
International President.

Metropolitan Stevedore Co.,
June 3, 1986.

Hon. Ted Stevens,
Member, Committee on Commerce, Science and Transportation, U.S. Senate, Senate Hart Office Building, Washington, DC.

Dear Senator Stevens: This will request your support of S. 1935, a bill due for hearing before the Committee on Commerce, Science and Transportation on June 4th and which would permit five built cruise ships to be registered to the U.S. flag so as to be owned and manned by Americans, and traded on cruises to American ports.

There is presently a boom in cruising abroad foreign flag cruise ships from U.S. ports to foreign waters, but U.S. cruising in U.S. waters is very limited due to a lack of suitable large modern ships. Re-registration of five ships would provide the opportunity for a range of interesting schedules to large and small ports on the U.S. coastline and in the Great Lakes, and also mean substantial employment opportunities in our port cities in the areas of ship and food supply, stevedoring and port services, towage, pilotage, ship repair and entertainment. The nation would also have available, at no cost, two modern cruise ships which could be available as auxiliary hospital ships or crew transports in time of need.

This measure will help bring a significant number of jobs back to America and encourage Americans to see their own shorelines from American ships, and your support of S. 1935 will be very much appreciated.

Very truly yours,

Brian Y. Harrison,
President and Chief Executive Officer.

City of Detroit Executive Office,
June 4, 1986.

Hon. Ted Stevens,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science and Transportation, Senate Hart Office Building, Washington, DC.

Dear Senator Stevens: On behalf of the City of Detroit, I would like to express support of S. 1935, a bill which would allow up to five foreign built cruise vessels to enter the domestic cruise market.

Detroit, once the maritime commercial center of the Great Lakes, has like many seaport cities suffered from the loss of passenger ship activity during the past decade, and has seen our waterfront areas deteriorated by the loss of our maritime community. We have been most fortunate in our efforts to revive our waterfront in recent years and are now most proud of our downtown waterfront development.

We have sought for some time to replace our lost passenger activity, and now see a real opportunity for our City and the entire State of Michigan by the passage of S. 1935.

We have supported your committee's past efforts in the reflagging issue, i.e., S. 1197, and are most hopeful of early passage of this legislation.

Sincerely,

Coleman A. Young, *Mayor.*

State University of New York,
Maritime College,
Bronx, NY, June 5, 1986.

Hon. Ted Stevens,
Senate Hart Office Building,
Washington, DC.

Dear Senator Stevens: It has come to my attention that a hearing will be held in the near future on the subject of revitalizing passenger vessels to be used in domestic coastwise trade. This is an exciting proposition from the standpoint of the State University of New York Maritime College in that it will employ approximately 1,000 American seamen. In addition, it will strengthen our U.S. Flag Sealift capacity for the purposes of National Defense.

I understand this proposal is supported by several maritime unions.

Our graduates, as you know, have difficulty in finding deep draft positions on U.S. Flag vessels. The plan to enable Americans to cruise American waters and American coastlines is the right ingredient to the equation. Your support for this bill is solicited.

Please feel free to include this letter in written testimony and also to include it in the record of S. 1935.

Sincerely,

F.H. MILLER,
Rear Admiral, USN (Ret.).

STATE OF ALASKA,
OFFICE OF THE GOVERNOR,
Juneau, June 6, 1986.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine,
Hart Building, Washington, DC.

DEAR TED: I am writing in support of S. 1935, to direct the secretary of the department in which the Coast Guard is operating to cause certain vessels to be documented as vessels of the United States so as to be entitled to engage in the domestic coastwise trade, and for other purposes. As you know, this legislation would authorize vessels meeting the criteria outlined in the bill to enter the coastwise trade as passenger carrying cruise ships.

While the bill would authorize up to five vessels to be accepted for the domestic trade, we do not know if the entire authorization would be used. However, we support legislation which has the potential of adding to the domestic cruise ship fleet for the purpose of transporting passengers. Hopefully, many of those additional passengers would be coming and going to and from Alaska. With the fall in the price of oil, the economy of Alaska is growing more dependent on visitors to our State, and we need to encourage the growth of this industry which is experiencing a banner year. In my opinion, the state should encourage all actions that would stimulate even more capacity and growth.

Thank you for the opportunity to comment on this bill which would create a very beneficial incentive for the visitor industry.

Sincerely,

BILL SHEFFIELD, *Governor.*

CITY OF BALTIMORE,
OFFICE OF THE MAYOR,
June 6, 1986.

Hon. TED STEVENS,
Senate Hart Office Building,
Washington, DC.

DEAR SENATOR STEVENS: I am writing to express my strong support of S. 1935, a resolution which would admit five large passenger vessels to the coastwise trade.

We, in the City of Baltimore, boast a rich heritage in the shipping industry. The Maryland Port Authority, based in Baltimore, is the third largest port in the country, consequently throughout its history, Baltimore has developed a wide network of services for the maritime industry. We have numerous large and small ship yards and employ thousands of people in these facilities. The depression of the shipping industry has severely hurt our local workforce. We, therefore, welcome any and all increased activity in the industry. In re-flagging the five cruise ships and thereby enabling them to sail between American ports, we understand that substantial conversion will be required in American shipyards, generating additional new business for American shipyards. We welcome the opportunity to receive even a small portion of that business activity.

In addition to our shipping history, the City of Baltimore also boasts one of the most attractive and popular waterfront developments in the country. We are continually trying to lure tourists to our City and would most heartily welcome the trade generated by our flag cruise visitors.

The benefits to the City of Baltimore resulting from the passage of this resolution are indeed attractive to us locally. I do feel, however, that the Congress of the United States should view this legislation as a means of bolstering our military preparedness. By permitting these five U.S. flag cruise ships to sail under the American Flag, we are ensuring that our country will possess several vessels for use in case of national security emergency. This point was clearly demonstrated in the British use of cruise ships during the Falkland crisis.

In light of these various points, I urge you and the members of your honorable committee to pass S. 1935.

Please include these remarks in the record of S. 1935.

Thank you for your consideration in this matter.

Sincerely,

William Donald Schaefer, *Mayor.*

Port Everglades Authority,
Fort Lauderdale, FL, June 9, 1986.

Hon. Daniel K. Inouye,
Senate Hart Office Building,
Washington, DC.

Dear Senator Inouye: On behalf of the Port Everglades Authority of Fort Lauderdale/Hollywood, I would like to express our support for S. 1935. This would enable five foreign flag vessels to operate at coastwise passenger service. Presently, there are no vessels offering this service except for the American Hawaiian Cruises which operate inter-Island.

It is our firm belief that passage of this bill would provide much needed employment for American seamen operating a coastwise sea trade.

Port Everglades is presently the second leading U.S. port in terms of revenue producing passengers and numbers of operating cruise vessels. We are expecting more than 500,000 passengers to pass through our terminals during the 1986-87 season. We will also have 20 of the finest vessels in the world assigned to us during the same period. The addition of an American-flag carrier would provide valuable additional cruise service and also provide additional cruise itineraries between American ports. This would enable passengers to travel from city to city and port to port without having to stop at a foreign port along the way.

The introduction of American-flag vessels would also provide job opportunities at the vessels' ports of call including shipyard work, stevedoring, chandlery service and, of course, additional tourism related activity at hotel and restaurants.

In summary, the Port Everglades Authority requests that this subcommittee consider all the favorable benefits which S. 1935 could provide to the marine and tourism industries of the United States. We also request that our comments be made part of the record supporting S. 1935.

Sincerely,

James H. Phifer,
Acting Port Director.

The Port Authority of New York and New Jersey,
June 13, 1986.

Hon. Ted Stevens,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science, and Transportation, Senate Hart Office Building, Washington, DC.

Dear Senator Stevens: I am writing you to extend the support of the Port Authority of New York and New Jersey for legislation to revive the domestic passenger ship industry. We support both your bill (S. 1935) and Senator Mathias' bill (S. 1929).

Passenger ship activity has experienced a significant decline during the past twenty years. Until the early 1960's, more than 900,000 passengers per year passed through the Port of New York/New Jersey on United States and foreign-flagged vessels. By 1985, however, only 441,000 passengers used the port—less than half of the number recorded at its peak. Compounding the general decrease in passenger ship travel is a reduction in the share of the market held by U.S. companies. Currently, more than 1.5 million passengers cruise through U.S. ports each year, but 95 percent of those passengers are carried by vessels which were owned and registered in other countries.

We are pleased this business has stabilized in recent years. However, passenger ship facilities in New York are still greatly underutilized and the demand for cruises by American consumers is not being fully accommodated. In 1977, the Port Authority conducted a survey of the market for passenger cruises. The survey found that almost two-thirds of potential cruise ship travellers were interested in a cruise between New York and South Florida. Unfortunately, U.S. cruise lines have been unable to respond to this demand since the economics of constructing and operating new ships in this untested market has presented unpalatable risks to potential investors.

Legislation that would allow U.S. cruise ship lines to purchase foreign vessels and reflag them in the United States, would be advantageous to ports as well as the domestic cruise ship industry. It would allow these cruise companies to serve several U.S ports in the coastwise passenger market, which in turn, would provide increased jobs and economic benefits for the port, passenger ship and travel industries. The success of this new market might induce other companies to begin service with newly constructed U.S. passenger ships, resulting in expanded benefits from the legislation.

Though your bill (S. 1928) and Senator Mathias' bill (S. 1935) vary in their allowance of foreign participation in refitting foreign-flagged vessels, both bills would allow U.S. companies to register a limited number of foreign flagged vessels in the United States for the purpose of entering the coastwise passenger market. It is this end which is so important. For this reason, the Port Authority supports both bills. Their adoption would result in new vitality for the domestic passenger ship industry and would give the public the opportunity to sail between America's great ports and coastal areas. Please include this letter in the hearing record on the subject of the legislation.

Sincerely,

JAMES KIRK,
Director, Port Department.

ALAMO RENT A CAR, INC.,
Fort Lauderdale, FL, June 13, 1986.

Hon. JOHN C. DANFORTH,
Senate Russell Office Building,
Washington, DC.

DEAR SENATOR: Alamo Rent A Car, Inc., with its 43 locations throughout the United States, wishes to express its support of S. 1935 a measure by which five foreign-registered ships would become American flag, American owned, and American crewed passenger vessels. We believe this legislation will serve to foster tourism in the U.S. by promoting American cruising to American ports of call, an option not now available to the American public or the hundreds of thousands of foreign tourists who visit annually.

Alamo now has locations in many cities which could use such a service, including Los Angeles, San Francisco, Boston, Jacksonville, Palm Beach, Fort Lauderdale, Miami, Key West, and Tampa, and looks forward to benefiting by the enactment of S. 1935.

Please include in the record.

Sincerely,

MICHAEL S. EGAN,
President, Chief Executive Officer.

THE AMERICAN WATERWAYS OPERATORS, INC.,
Arlington, VA, June 25, 1986.

Hon. TED STEVENS,
Chairman, Senate Subcommittee on Merchant Marine,
Hart Senate Office Building, Washington, DC.

DEAR MR. CHAIRMAN: The American Waterways Operators (AWO) and the American Waterways Shipyard Conference (AWSC) submit the following comments in opposition of S. 1935, a bill to allow up to five foreign-built passenger vessels into the domestic trades. We ask that this letter be included in the hearing record.

S. 1935 in effect would attempt to breach our cabotage laws and, as such, would undermine the integrity of the Jones Act which is one underpinning of U.S. national security policy. These cabotage laws, which require all vessels plying our coastwise trades to be U.S. built, U.S. crewed and U.S. owned, have accomplished their objective by giving rise to an efficient U.S. carrier industry and second tier shipyard industry. If enacted, S. 1935 would court serious harm to these industries through undermining one vital component of the U.S. domestic carrier industry which does exist and is experiencing impressive growth: the building and operating of passenger vessels accommodating up to 100 to 200 passengers.

AWO is the national trade association for the U.S. barge and towing industry. AWSC is a conference of this association representing the second tier commercial shipyards. This segment of the shipbuilding and repair industry is composed of approximately 200 shipyards located throughout the nation constructing and repairing the vessels for domestic voyages, offshore service and fishing industries. These yards build the cruise ships and ferry vessels for our nation's coastal and inland waterways.

The building of the smaller passenger vessels is the only bright spot in the economically depressed U.S. second tier shipbuilding industry. There is virtually no other new construction or repair work for these shipyards, with overcapacity of vessels as high as the 50 percent range for other market areas served.

From 1980 to 1985, construction of the smaller passenger and excursion vessels have increased from one to twenty-six in the five year span alone. These smaller passenger vessels currently in service accommodate up to 100 passengers. Moreover, plans to construct vessels to accommodate up to 250 passengers are under discussion. The excursion vessels cited are primarily ferries, dinner boats and one day cruise ships which operate throughout the United States.

In 1980, only one shipyard was constructing these kinds of vessels. In the past twenty-four months this same yard built seven additonal vessels. By 1983, five yards were in this business. During 1985, fourteen shipyards built vessels for the domestic cruise industry. Approximately seven of these fourteen shipyards are primarily dependent on the U.S. cruise industry: Nichols Brothers Boat Builders, Inc., Freeland, Washington; Blount Marine Corporation, Warren, Rhode Island; T.D. Vinette, Escanaba, Michigan; Chesapeake Shipbuilding Co., Salisbury, Maryland; Marine Builders, Inc., Jeffersonville, Indiana; Eastern Marine, Inc., Panama City, Florida; and Westport Shipyard, Westport, Washington.

The second tier shipyards have met the growing interest in domestic cruises by constructing safe and efficient vessels. This market sector has provided employment for hundreds of workers in an industry which has an horrendous 90 percent unemployment rate.

In 1981, the peak year for new construction activities in the second tier shipyards, there were approximately 26,900 workers performing both new construction and repair activities in these facilities. By 1985, the industry's employment level dropped to roughly 9,000.[1] This is a 300 percent decline in the overall employment level in just four years, with the brunt felt in the area of new construction. Between the years of 1981 to 1984, new construction activities have experienced an 81 percent decline.

Now, the construction of smaller passenger vessels is on the upswing. In 1984, yards constructing passenger vessels accounted for 15 percent of the new construction activity for all power driven vessels, and 31 percent of the entire workforce of the industry. Military vessel construction, the only other viable market sector, surpassed this number with 65 percent of the total new construction market. New construction of all other vessel types such as towboats, tugboats, fishing vessels and offshore service supply boats accounted for only 20 percent ot the workload.

In 1985 the figures continued to rise. Construction of passenger vessels accounted for 17 percent of the new construction activity of power driven vessels, and 33 percent of the total workforce. The construction of these vessels in the second tier shipyards clearly is a growing market; enactment of S. 1935 would deal this market a crippling blow.

Apparently some are unclear about the level of competition between the larger and smaller passenger vessels. Proponents of S. 1935 continue to argue that competition simply does not exist. According to them, the smaller operators and builders will not be impacted adversely. That is simply not true. U.S. operators are running cruises up and down both the East and West Coasts, the very routes these larger foreign built vessels would ply. The operators of these larger vessels would have lower sunk costs, and therefore would be able to operate at a far greater advantage, driving current operators out of business.

S. 1935 would be penalize those U.S. operators who have made investment decisions within the scope of U.S. cabotage laws. By building their vessels in the United States, they are supporting this country's declining shipbuilding base, helping to stem the rising unemployment rate in the shipbuilding industry, and providing employment for the many suppliers of the maritime industry. Existing U.S. operators in direct competition with these foreign vessels would have no choice but to seek to acquire their vessels from foreign shipyards so that they will be on equal footing. This would destroy this growing industry and further aid in the demise of the United States' current shipbuilding base.

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[1] 1985 Annual Shipyard Survey, American Waterways Shipyard Conference, 1985.

It must be clearly understood that even though there is a difference in vessel size, all current and future operators are competing in the same marketplace for the same passenger. Allowing these foreign-built vessels into the domestic trades would only penalize those existing operators willing to make the investment due to our cabotage laws and would destroy the new construction market for any size of passenger vessel in the United States.

S. 1935 must be seen for what it really is: yet another attempt to weaken our nation's essential cabotage laws. We know of nothing which has changed the United States' need to preserve its domestic fleet and shipbuilding capability for our national security.

The American Waterways Operators and the American Waterways Shipyard Conference are vigorously opposed to any attempt to allow foreign built vessels into our domestic trades.

Thank you for the opportunity to submit our views.

Sincerely,

JOSEPH FARRELL,
President,
WALTER W. RODY,
Chairman,

COLUMBIA, SC, *July 7, 1986.*

Hon. ERNEST F. HOLLINGS,
U.S. Senate,
Washington, DC.

DEAR FRITZ: Nancy and I have conducted tours all over the world during the past twenty-two years, and we have recently found an increasing desire among our friends for tours in this country, especially cruises.

An increase in travel in and around the United States will be extremely beneficial to all aspects of our economy. In this connection, I have learned that Senate bill S. 1935 is offering America five reflagged ships, ones that will aid our country in its efforts to regain a viable cruise ship market with ships that will employ U.S. citizens, be American owned and available at no charge to the Government.

This letter is submitted as a statement for the record, and your support of S. 1935 will be greatly appreciated.

With my kindest personal regards, I am,

Sincerely,

C. WALLACE MARTIN.

THE CITY OF NEW YORK,
OFFICE OF THE MAYOR,
New York, NY, July 7, 1986.

Hon. TED STEVENS,
Hart Senate Office Building,
Washington, DC.

DEAR SENATOR: I would like to express our support for S. 1935, the bill to reflag up to five cruise ships to the U.S. registry, which is now being considered by the Merchant Marine Subcommittee of the Committee on Commerce, Science, and Transportation.

The purpose of this legislation is to allow these ships to operate in the coastwise passenger trade of this country, and to stimulate the cruise industry in the United States. Today, the passenger ship fleet under the U.S. flag is virtually non-existent. Cruises offered to the American public are primarily on foreign ships and to foreign destinations.

We believe that there is a strong consumer interest in coastal cruises along the East Coast. Enactment of this legislation will allow such cruises to take place. The result will be increased jobs for maritime workers and support industries, as well as increased tourism and revenues for many U.S. port cities.

I, therefore, urge your support of this worthwhile legislation.

Sincerely,

EDWARD T. KOCH, *Mayor.*

HYANNIS, MA, *July 9, 1986.*

Hon. TED STEVENS,
Senate Hart Office Building,
Washington, DC.

DEAR SENATOR STEVENS: I have been following with great interest the progress of Senator Ted Stevens Cruise Industry Promotion Package, S. 1935. As a licensed ship's master and marine consultant, I feel qualified to express my views on this important maritime legislation.

The Congress, by way of the Act of June 19, 1886, enacted statutes which prohibited foreign flag vessels from transporting passengers between ports in the United States. Subsequently, the Vessel Documentation Act was enacted which, among other requirements, required that vessels engaged in the coastal trades must be constructed in the United States. The Merchant Marine Act of 1920, as amended, also known as the Jones Act, further required that any merchandise (interpreted to include passengers) to be transported by water between U.S. ports must be transported aboard vessels that (1) were built in the United States; (2) are owned and manned by U.S. citizens; (3) are documented under U.S. laws and (4) has not been sold to foreign citizens, put under foreign registry, or rebuilt in foreign yards.

The foregoing were, of course, enacted prior to the creation of our national highway system at a time when overland transportation was not always feasible and water routes provided the most efficient means of transportation. These laws did not, however, take into account the contemporary cruise industry, wherein vessels are utilized as floating resorts, not means of point-to-point transportation.

In essence, our cabotage laws embodied within the Jones Act, were intended to promote and encourage a strong merchant marine for commercial and defense purposes. Unfortunately, this goal has not been achieved as has been witnessed by the decline of our American passenger fleet and the exponential growth of the American based foreign owned and operated cruise fleet. The cabotage laws are, in effect, no longer relevant, as pertaining to today's cruise industry. Legislation such as S. 1935, which would exempt five recently constructed vessels from only the American built requirement, would better serve our cabotage laws by providing immediate employment for American seafarers; substain American shipyard work for the conversion to U.S. Coast Guard standards and on-going maintenance of each vessel and; in addition; would provide modern, efficient, high-density vessels ideally suited for troop ship duty in time of national emergency; all at *no taxpayer cost.*

Senator Stevens, I believe that you must agree that S. 1935 provides the best possible solution to America's sailing cruise industry: a solution which promises employment for our seamen; tax revenues for our Treasury; defense features for our military; hundreds of thousands of dollars per day to our communities; and a much needed presence in the world cruise market.

Please include my statement of support for the record on S. 1935.

Sincerely,

JOHN MCDONALD.

FOREST LAKE TRAVEL,
July 11, 1986.

Hon. ERNEST F. HOLLINGS,
Senate Hart Office Building,
Washington, DC.

DEAR SENATOR HOLLINGS: Forest Lake Travel wishes to submit for the record this letter endorsing Senator Ted Stevens, cruise ship Revitalization Bill, S. 1935. This legislation will admit five foreign-built passenger ships to be reflagged as American, and able to sail in a coastwise itinerary.

The introduction of a new American flag fleet would also provide job opportunities for 5000 seagoing men and women. S. 1935 will not only benefit the Merchant Marine but also ship yards, stevedores, chandlery services, and tourist related activities.

Forest Lake Travel requests your support and that of your Committee for S. 1935, America's final hope for a competitive cruise fleet.

Sincerely,

JOSEPH BOUKNIGHT, *President.*

THOMAS COOK TRAVEL,
July 12, 1986.

Hon. DANIEL K. INOUYE,
Senate Hart Office Building,
Washington, DC.

DEAR SENATOR INOUYE: Thomas Cook Travel, U.S.A. a company of the Dun & Bradstreet Corporation, is a world wide travel agency consisting of 1400 agencies.

As an international agency we are well aware of the booming cruise ship industry. There are presently 75 foreign ships cruising daily from American ports and sadly enough, only two American flag ships throughout the world.

S. 1935, is a bill that will more than double our cruise ship fleet by allowing five foreign flagged ships to be reflagged as American. This bill would enable the United States to compete with the foreigners in a coastwise trade. Ports such as Charleston, S.C. and Milwaukee, WI will once again benefit from the tourism produced by S. 1935. These and other exciting destinations will be served by large modern cruise ships.

It is unfortunate that America, who was once a giant in the cruise ship industry is, subject to only two U.S. flagged ships. S. 1935 will change this. Thomas Cook Travel U.S.A. is glad to see a possible rainbow in America's cruise ship industry and actively supports S. 1935 just as ASTA (Association of Retail Travel Agents), ARTA (Association of Retail Travel Agents), and numerous Governors, Mayors, and Chambers of Commerce throughout the country have.

I urge you and your committee to support this legislation so that America can once again begin to lead the world in passenger cruising.

Please include for the record.

Sincerely,

JOE CREWS, *Manager.*

[Mailgram]

GEORGIA PORTS AUTHORITY,
Savannah, GA, May 30, 1986.

Senator TED STEVENS,
Washington, DC.

DEAR SENATOR: The Georgia Ports Authority strongly supports S. 1935 which will strengthen our existing U.S. passenger fleet by the addition of five large passenger cruise ships.

We believe that allowing these modern vessels to operate domestic cruises will provide many jobs and revenue at American ports and also provide benefits through purchases of the supplies needed for operation of the cruise ships themselves.

I urge your support of S. 1935 which will be before the Committee on Commerce, Science, and Transportation on June 4, 1986.

GEORGE J. NICHOLS,
Executive Director.

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